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Official Statement

**Santa Margarita Water District**  
**Orange County, California**

**\$4,250,000**

**Bonds for Improvement District No. 2-W, Coto de Caza**  
**1968 Water Bonds, Series A**  
**(General Obligations)**

RECEIVED BY ADMINISTRATOR  
DISTRICT OFFICE

RECEIVED BY CLERK

Bids to be received on behalf of the District at the office of Bank of America N.T. & S.A.,  
(Corporate Agency Division), Sixth Floor Conference Room, 555 South Flower Street,  
Los Angeles, California 90071 at 11:00 A.M., Tuesday, August 1, 1978.

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**NOTICE INVITING BIDS ON GENERAL OBLIGATION BONDS  
OF SANTA MARGARITA WATER DISTRICT  
FOR IMPROVEMENT DISTRICT NO. 2-W, COTO de CAZA**

NOTICE IS HEREBY GIVEN that sealed proposals for the purchase of \$4,250,000 par value general obligation bonds of Santa Margarita Water District of Orange County, California, for Improvement District No. 2-W, Coto de Caza, will be received by the Board of Directors of said District at the place and up to the time below specified:

**TIME:** August 1, 1978  
11:00 o'clock A.M.

**PLACE:** Corporate Agency Division  
Bank of America National Trust and Savings Association  
6th Floor Conference Room  
555 South Flower Street  
Los Angeles, California

**MAILED BIDS:** Santa Margarita Water District  
c/o Fritz Stradling, Secretary  
Corporate Agency Division  
Bank of America National Trust and Savings Association  
6th Floor Conference Room  
555 South Flower Street  
Los Angeles, California 90071

**OPENING OF BIDS:** The bids will be received and opened at 11:00 o'clock A.M. on August 1, 1978 and presented at a meeting of the Board of Directors to be held at 2:00 o'clock P.M. on said date at 25571 Marguerite Parkway, Mission Viejo, California.

**ISSUE:** \$4,250,000 designated "Bonds of Santa Margarita Water District for Improvement District No. 2-W, Coto de Caza, 1968 Water Bonds, Series A, (herein called the "bonds"), consisting of 850 bonds, numbered A1 to A850, both inclusive, of the denomination of \$5,000 each, dated August 1, 1978.

**MATURITIES:** The bonds will mature in consecutive numerical order on August 1 in the amounts for each of the several years as follows:

Year	Principal Amount	Year	Principal Amount
1980	\$ 65,000	1993	\$165,000
1981	70,000	1994	175,000
1982	75,000	1995	185,000
1983	80,000	1996	200,000
1984	85,000	1997	210,000
1985	95,000	1998	225,000
1986	100,000	1999	245,000
1987	110,000	2000	260,000
1988	115,000	2001	280,000
1989	125,000	2002	300,000
1990	135,000	2003	320,000
1991	140,000	2004	340,000
1992	150,000		

**INTEREST:** The bonds shall bear interest at a rate or rates to be fixed upon the sale thereof but not to exceed seven percent (7%) per annum, payable semiannually on February 1 and August 1 of each year.

**PAYMENT:** Said bonds and the interest thereon are payable in lawful money of the United States of America at the Corporate Agency Division of the Bank of America National Trust and Savings Association in Los Angeles and San Francisco, California, or at any paying agency of the District in Chicago, Illinois, or New York, New York, at the option of the holder thereof.

**REGISTRATION:** The bonds will be coupon bonds registrable only as to both principal and interest and the bonds discharged from registration, all in accordance with the provisions in the resolution providing for the issuance of the bonds.

**REDEMPTION:** The bonds maturing on or prior to August 1, 1992, shall not be subject to call or redemption prior to maturity. The bonds maturing on or after August 1, 1993, or any of them, may be called before maturity and redeemed at the option of the Board of Directors of the District on August 1, 1992, or any interest payment date thereafter prior to maturity, at a redemption price for each redeemable bond equal to the principal amount thereof, plus a premium equal to one-fourth of one percent ( $\frac{1}{4}$  of 1%) of said principal amount for each year or portion thereof from the redemption date to the maturity date. All or any of the bonds subject to call may be called for redemption at any one time. If less than all of the bonds are redeemed at any one time, such bonds shall be redeemed only in inverse order of maturity and by lot within a single maturity.

**PURPOSE OF ISSUE:** The bonds were authorized for the acquisition and construction of waterworks facilities in Improvement District No. 2-W, Coto de Caza.

**SECURITY:** The bonds are to be issued pursuant to the California Water District Law (Division 13 of the Water Code), as bonds authorized at a special election held on September 17, 1968. The bonds are payable from unlimited ad valorem assessments upon taxable land within Improvement District No. 2-W, Coto de Caza, or from water charges which, pursuant to Section 36425 of the Water Code, may be fixed and collected in lieu thereof.

### TERMS OF SALE

**INTEREST RATE:** The maximum rate bid may not exceed seven percent (7%) per annum, payable semiannually on February 1 and August 1 of each year. Each rate bid must be a multiple of one-twentieth of one percent ( $\frac{1}{20}$  of 1%). No bond shall bear more than one interest rate, and all bonds of the same maturity shall bear the same rate. Each bond must bear interest at the rate specified in the bid from its date to its fixed maturity date. Only one coupon will be attached to each bond for each installment of interest thereon, and bids providing for additional or supplemental coupons will be rejected. The rate on any maturity or group of maturities shall not be more than 2% higher than the interest rate on any other maturity or group of maturities.

**AWARD:** The bonds shall be sold at a price equal to their par value or above or below their par value, except that any discount bid shall not exceed one and one-half percent ( $1\frac{1}{2}\%$ ) of the par value of the bonds. The bonds shall be sold for cash only. All bids must be for not less than all of the bonds hereby offered for sale and each bid shall state the total price offered for the bonds, the premium or the discount, if any, and the interest rate or rates not to exceed that specified herein, at which the bidder offers to buy said bonds, and that the bidder will pay accrued interest to the date of delivery. Each bidder shall state in his bid the total net interest cost in dollars and the average net interest rate determined thereby, which shall be considered informative only and not a part of the bid.

**HIGHEST BIDDER:** The bonds will be awarded to the highest responsible bidder or bidders considering the interest rate or rates specified and the premium or the discount offered, if any. The highest bid will be determined by deducting the amount of the premium bid (if any) from the total amount of interest which the District would be required to pay from the date of said bonds to the respective maturity dates thereof at the coupon rate or rates specified in the bid. The net cost to the District on any bid or bids offering less than par will be

determined by adding to the total amount of interest which the District would be required to pay from the date of said bonds to the respective maturity dates thereof at the coupon rate or rates specified in the bid amount of the discount bid. The award will be made to the bidder or bidders offering the lowest net cost to the District. In the event that two or more bidders have bid the same lowest net cost to the District, the award shall be made by lot. The purchaser must pay accrued interest (computed on a 360-day year basis) from the date of the bonds to the date of delivery. The cost of printing the bonds will be borne by the District.

**RIGHT OF REJECTION:** The District reserves the right, in its discretion, to reject any and all bids and, to the extent not prohibited by law, to waive any irregularity or informality in any bid.

**PROMPT AWARD:** The District will take action awarding the bonds or rejecting all bids not later than twenty-six (26) hours after the expiration of the time herein prescribed for the receipt of proposals, provided that the award may be made after the expiration of the specified time if the bidder shall not have given to said Board notice in writing of the withdrawal of such proposal.

**PLACE OF DELIVERY; FUNDS FOR PAYMENT:** Delivery of the bonds will be made to the successful bidder at Jeffries Banknote Company, 1330 W. Pico Boulevard, Los Angeles, California, or at any other place agreeable to both the Treasurer of the District and the successful bidder.

**PROMPT DELIVERY; CANCELLATION FOR LATE DELIVERY:** It is expected that the bonds will be delivered to the successful bidder within thirty (30) days from the date of sale thereof. The successful bidder shall have the right, at his option, to cancel the contract of purchase if the District shall fail to execute the bonds and tender them for delivery within sixty (60) days from the date herein fixed for the receipt of bids, and in such event the successful bidder shall be entitled to the return of the check accompanying his bid.

**FORM OF BID:** Each bid, together with the bid check, must be enclosed in a sealed envelope, addressed to the District with the envelope and bid clearly marked "Proposal for Santa Margarita Water District, Improvement District No. 2-W, Coto de Caza, 1968 Water Bonds, Series A."

**BID CHECK:** A certified or cashier's check on a responsible bank or trust company in the amount of \$45,000 payable to the order of the District must accompany such proposal as a guaranty that the bidder, if successful, will accept and pay for the bonds in accordance with the terms of his bid. The check accompanying any accepted proposal shall be applied on the purchase price, or if such proposal is accepted but not performed, unless such failure of performance shall be caused by any act or omission of the District, shall then be cashed and the proceeds retained by the District and be applied by the District in partial satisfaction of whatever actual damages the District may suffer by reason of the successful bidder's failure to perform hereunder in accordance with the terms of sale. In such instance, should the District's actual damages be determined to be less than said amount, thirty (30) days after any such determination by a court having jurisdiction thereof becomes final, the balance of said amount shall be returned to the successful bidder. Should the successful bidder fail to perform hereunder, the District may also recover all costs relating thereto, including a reasonable amount for attorney's fees. The check accompanying each unaccepted proposal will be returned promptly.

**CHANGE IN TAX EXEMPT STATUS:** At any time before the bonds are tendered for delivery the successful bidder may disaffirm and withdraw the proposal if the interest received by private holders from bonds of the same type and character shall be declared to be taxable income under present federal income tax laws, either by a ruling of the Internal Revenue Service or by a decision of any federal court, or shall be declared taxable, or shall be required to be taken into account in computing any federal income taxes, by the terms of any federal income tax law enacted subsequent to the date of this notice.

**CLOSING PAPERS:** Each proposal will be understood to be conditioned upon the District's furnishing to the purchaser, without charge, concurrently with payment for and delivery of the bonds, the following closing papers, each dated the date of delivery:

(a) Legal Opinion—The legal opinion of Stradling, Yocca, Carlson & Rauth, Bond Counsel, Newport Beach, California, approving the validity of the bonds will be furnished the successful bidder at or prior to the time of delivery of the bonds, at the expense of the District. A copy of that opinion, certified by an officer of the District by his facsimile signature, will be printed on the back of each bond. No charge will be made to the purchaser for such printing or certification;

(b) A certification of the District certifying that on the basis of the facts, estimates and circumstances in existence on the date of issue, it is not expected that the proceeds of the bonds will be used in a manner that would cause the bonds to be arbitrage bonds;

(c) A certificate of the District signed by officers and representatives of the District certifying to the following: (1) that said officers and representatives have signed the bonds, whether by facsimile or manual signature, and that they were respectively duly authorized to execute the same; and (2) that there is no litigation pending affecting the validity of the bonds;

(d) The receipt of the District showing that the purchase price of the bonds, including interest accrued to the date of delivery thereof, has been received by the District;

(e) A certificate of the District, signed by the Director of Finance of the District, acting in his official capacity, to the effect that to the best of his knowledge and belief, and after reasonable investigation: (1) Neither the official statement relating to the Bonds nor any amendment or supplement thereto contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; (2) since the date of the official statement no event has occurred which should have been set forth in an amendment or supplement to the official statement which has not been set forth in such an amendment or supplement; nor (3) has there been any material adverse change in the operation or financial affairs of the District since the date of such official statement.

**CUSIP NUMBERS:** It is anticipated that CUSIP identification numbers will be printed on the bonds but neither the failure to print such number on any bond nor any error with respect thereto shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for said bonds in accordance with the terms of the purchase contract. All expenses in relation to the printing of CUSIP numbers on said bonds shall be paid for by the issuer; provided, however, that the CUSIP Service Bureau charge for the assignment of said numbers shall be the responsibility of and shall be paid for by the purchaser.

**OFFICIAL STATEMENT:** The District has prepared an official statement relating to the bonds, a copy of which will be furnished upon request addressed to:

Stone & Youngberg Municipal Financing Consultants, Inc.  
One California Street, Suite 2750  
San Francisco, California 94111  
(415) 989-2300

The District will provide the successful bidder 250 copies of the official statement at the expense of the District.

GIVEN by order of the Board of Directors of Santa Margarita Water District, adopted July 6, 1978.

FRITZ R. STRADLING  
Secretary of the Board of Directors  
of Santa Margarita Water District

**SANTA MARGARITA WATER DISTRICT  
IMPROVEMENT DISTRICT NO. 2-W, COTO de CAZA  
Orange County, California**

**BOARD OF DIRECTORS**

Thomas C. Blum, *President*

Robert Clark, *Vice President*

Robert Wilhelm, *Vice President*

Donald Schone, *Vice President*

Warren W. Wilson, *Vice President*

---

**DISTRICT STAFF**

W. W. Knitz, *General Manager*

James H. Smith, *Chief Engineer*

Michael P. Lord, *Director of Finance*

Fritz R. Stradling, *Secretary and Legal Counsel*

---

**SPECIAL SERVICES**

Stradling, Yocca, Carlson & Rauth, *Newport Beach  
Bond Counsel*

Robert Bein, William Frost & Associates, *Newport Beach  
Professional Environmental Engineers and Planners*

Stone & Youngberg Municipal Financing Consultants, Inc., *San Francisco  
Financing Consultants*

Bank of America N.T. & S.A., *Los Angeles and San Francisco*  
The Chase Manhattan Bank, N.A., *New York City*  
Harris Trust & Savings Bank, *Chicago*  
*Paying Agents*

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**THE DATE OF THIS OFFICIAL STATEMENT IS JULY 6, 1978**

DIRECTORS & OFFICERS

THOMAS C. BLUM  
PRESIDENT

ROBERT S. CLARK  
VICE PRESIDENT

DON B. SCHONE  
VICE PRESIDENT

ROBERT WILHELM  
VICE PRESIDENT

WARREN W. WILSON  
VICE PRESIDENT

FRITZ R. STRADLING  
SECRETARY  
GENERAL COUNSEL

KENNETH A. MULLER  
TREASURER

W. W. KNITZ  
GENERAL MANAGER

JAMES H. SMITH  
CHIEF ENGINEER

# santa margarita water district



25571 MARGUERITE PARKWAY (POST OFFICE BOX 2279) MISSION VIEJO, CALIFORNIA 92675 (714) 586-1973

July 6, 1978

## TO WHOM IT MAY CONCERN:

The purpose of this Official Statement is to supply information to prospective bidders on and buyers of Bonds for Improvement District No. 2-W, Coto de Caza, \$4,250,000 1968 Water Bonds, Series A, authorized and issued for the purpose of assisting in the financing of water system improvements and paying of expenses in connection with bond issuance.

The material contained in this Official Statement was prepared by Stone & Youngberg Municipal Financing Consultants, Inc., in the capacity of financing consultant to the Santa Margarita Water District with regard to its Improvement District No. 2-W, Coto de Caza, 1968 Water Bonds, Series A. (Such firm will receive compensation from the District contingent upon the sale and delivery of the Bonds.) Summaries herein presented of the Resolution of Issuance, Notice Inviting Bids, proposed project improvements, and financial and economic data do not purport to be complete, and reference is made to the documents on file in the office of the Secretary of the District for further information. Statements which involve estimates or opinions, whether or not expressly so described herein, are intended solely as such and are not to be construed as factual reports.

The Official Statement does not constitute a contract with the buyers or holders, from time to time, of the Bonds. The Resolution of Issuance, which does constitute such a contract, is available to any prospective bidder on request from said Secretary.

The legal opinion, approving the validity of the Bonds, will be furnished by Stradling, Yocca, Carlson & Rauth, Newport Beach, California, Bond Counsel. Bond Counsel's participation in the preparation of this Official Statement has been limited to reviewing the statements of law and legal conclusions as set forth herein under the heading "The Bonds".

No dealer, broker, salesman or other person has been authorized by the District to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The execution and distribution of this Official Statement have been duly authorized by the District.

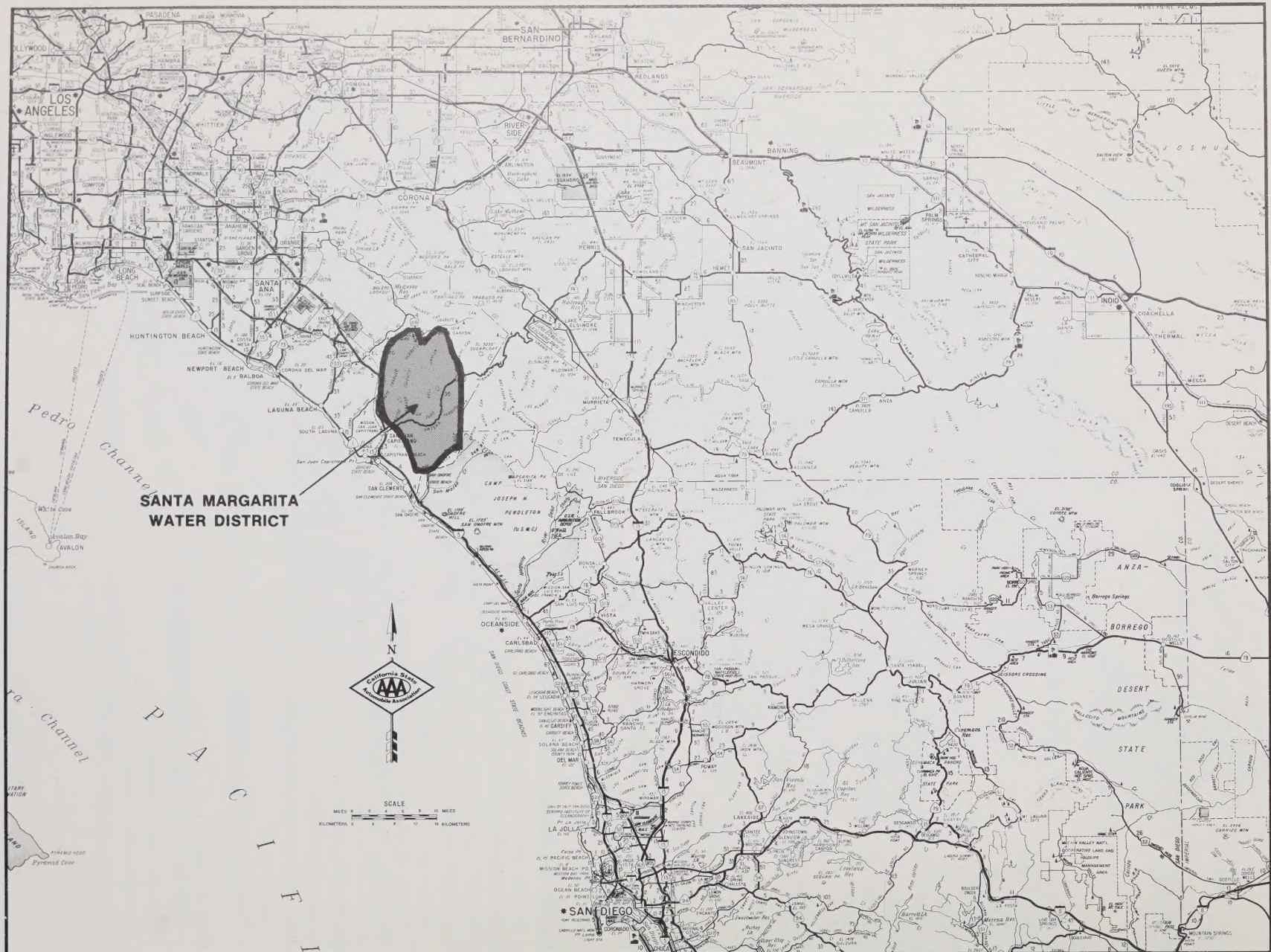
SANTA MARGARITA WATER DISTRICT

/s/ THOMAS C. BLUM  
\_\_\_\_\_  
President

/s/ FRITZ R. STRADLING  
\_\_\_\_\_  
Secretary

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Map showing the Santa Margarita Water District and its location in Southern California. Improvement District No. 2-W, Coto de Caza is located in the north-central portion of the District, as shown on page 8 of this official statement.

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# INTRODUCTION

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The \$4,250,000 principal amount of Santa Margarita Water District Bonds for Improvement District No. 2-W, 1968 Water Bonds, Series A, Coto de Caza (hereinafter referred to as Improvement District No. 2-W), are currently offered for sale. These bonds are the first series of a \$20,000,000 total authorized 1968 Water Bonds. After sale of these Bonds, there will be \$15,750,000 authorized but unissued 1968 Water Bonds for Improvement District No. 2-W.

The water bond proceeds will be used to finance construction of water system improvements needed to serve present and future homeowners within the improvement district, to repay developer loans, to establish a bond reserve and to pay costs of bond issuance, as detailed in the section of this official statement entitled "The Project."

Improvement District No. 2-W and coterminous Improvement District No. 2-S comprise the planned community of Coto de Caza located within the Santa Margarita Water District. Coto de Caza is a development of Coto de Caza Development Corporation, a subsidiary of Great Southwest Corporation. Great Southwest Corporation is owned almost entirely by the Pennsylvania Company, is discussed on page 15 of this official statement.

The overall District, including improvement districts therein, is a landowner district and ad valorem taxes or assessments are levied upon land only. The 1977/78 assessed valuation (land only) of the improvement district is \$3,918,960. The 1977/78 assessed valuation of all property within the improvement district is \$6,328,410. Fair market value of land only in the improvement district was appraised at \$32,000,000 as of March 1978 by Philip S. Jackson, M.A.I. A copy of the appraisal letter of transmittal is included as an appendix to this official statement. Capital investment within the improvement district by the developer, Coto de Caza Development Corporation, totalled approximately \$26.1 million as of April 30, 1978.

Coto de Caza is located in southern Orange County about 20 miles southeast of Santa Ana, the county seat, and 55 miles southeast of Los Angeles. It is located about 15 miles east of the El Toro Road intersection with Interstate 5, the major north-south freeway on the Pacific Coast, providing easy access to virtually anywhere in the nation. Development of Coto de Caza began in 1963 with purchase of the 4,930-acre site by a predecessor of the current developer. Improvement District No. 2-W was formed in

1968 based on a preliminary master plan and associated approved plan of works. However, a revised master plan and plan of works was presented and adopted in late 1977. The development is planned as a low-density residential and recreational/resort community. The first recreational facilities were completed in 1970 and the first homes begun in 1975. As of April 30, 1978, the developer reports 60 occupied homes, an additional 60 under construction and other facilities completed as detailed in a subsequent section of this official statement. The developer anticipates construction of about 125 dwellings annually through 1982. Completion of land sales is estimated for 1990 with build-out by the mid to late 1990's. Current prices range from \$40,000-\$75,000 for home lots; \$100,000-\$400,000 for estate lots; \$150,000-\$250,000 for custom homes; and \$129,500 for furnished condominiums.

Orange County is one of the fastest growing urban areas in the nation. Growth within the county is principally in the southern portion on former ranch lands, which includes the Santa Margarita Water District, which serves Coto de Caza and a portion of the unincorporated community of Mission Viejo. Since 1960, the county's population has increased

from 703,925 to 1,799,700 (July 1977 State Department of Finance estimate), or 256%. During the same period, the county's assessed valuation increased from \$1,271,871,200 to \$10,168,401,047, an increase of almost eight times.

The entire Santa Margarita Water District comprises about 63,000 acres, of which 4,930 are in coterminous Improvement Districts Nos. 2-W and 2-S. The 1977/78 assessed valuation on land only for the entire District is \$39,628,520, of which \$3,918,960 comprises Improvement Districts Nos. 2-W and 2-S. For the period since 1974/75 (the first year a tax was levied), secured tax delinquencies averaged 0.49% for Improvement Districts Nos. 2-W and 2-S.

The Bonds currently offered will be the first general obligation debt for Improvement District No. 2-W. The improvement district's total direct and estimated overlapping bonded debt will be \$5,143,320, or 131.24% and 81.27% of the 1977/78 assessed valuations on land only, and on all property, respectively. The total debt will be 16.07% of the 1978 estimated market value of land only, as established by an independent appraiser.

Aerial view of Coto de Caza. New homes are at the upper part of the photo, The Vic Braden Tennis College to the left center and the equestrian center at the lower right.



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# THE BONDS

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## Authority for Issuance

At a special election held on September 17, 1968, voters within Improvement District No. 2-W of the Santa Margarita Water District ("the Improvement District") authorized the issuance of \$20,000,000 of general obligation bonds.

The \$4,250,000 Santa Margarita Water District Bonds for Improvement District No. 2-W Coto de Caza, 1968 Water Bonds, Series A ("the Bonds" or "Series A Bonds"), now being offered for sale will be issued pursuant to the provisions of a resolution of the District Board of Directors adopted July 6, 1978. Proceeds from the sale of the bonds will be used to finance water system improvements for the Improvement District.

## State Treasurer Approval

The California District Securities Division (DSD), office of the State Treasurer, is a State agency and administers the provisions of Division 10 of the Water Code. The Districts Securities Advisory Commission consists of a representative of the Department of Water Resources and six other members, all appointed by the State Treasurer. The Advisory Commission reviews the construction and financing programs of certain types of water and sewer districts, and offers advice and recommendations to the State Treasurer for appropriate action. Sale of bonds of these districts is subject to the approval of the State Treasurer for certification by the State Treasurer.

The Santa Margarita Water District is subject to jurisdiction of the State Treasurer through the DSD. Prior to approval of the bond sale, the division staff makes a thorough investigation of the project, bond security, terms and conditions. Expenditure of bond proceeds must also be approved by the State Treasurer. The District must also file an annual report of revenues and expenses both with the DSD and the State Controller.

Application for permission to sell the Bonds has been made to the State Treasurer and approval is expected prior to the sale date of the Bonds.

## Terms of Sale

Bids for the purchase of the Bonds will be received by a representative of the Board of Directors of the Santa Margarita Water District at 11:00 A.M., Tuesday, August 1, 1978, in the Sixth Floor Conference Room, Bank of America N.T. & S.A. (Corporate Agency Division), 555 South Flower Street, Los Angeles, California 90071. It is anticipated that award of the Bonds to the successful bidder will be made by the Board of Directors at its meeting later on the same date. Details of the terms of sale are included in the Notice Inviting Bids dated July 6, 1978, a copy of which accompanies this official statement as originally distributed. The District has not applied for ratings from the bond rating agencies.

## Description of the Bonds

The \$4,250,000 principal amount of Bonds will be dated August 1, 1978 and will be issued in denominations of \$5,000 each. The Bonds will be numbered A1 through A850 and will be payable annually on August 1 of each year as shown in the following tabulation.

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## MATURITY SCHEDULE

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Maturity Date August 1	Principal Amount	Maturity Date August 1	Principal Amount
1980 ...	\$ 65,000	1993 ...	\$165,000
1981 ...	70,000	1994 ...	175,000
1982 ...	75,000	1995 ...	185,000
1983 ...	80,000	1996 ...	200,000
1984 ...	85,000	1997 ...	210,000
1985 ...	95,000	1998 ...	225,000
1986 ...	100,000	1999 ...	245,000
1987 ...	110,000	2000 ...	260,000
1988 ...	115,000	2001 ...	280,000
1989 ...	125,000	2002 ...	300,000
1990 ...	135,000	2003 ...	320,000
1991 ...	140,000	2004 ...	340,000
1992 ...	150,000		

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Interest is payable semi-annually on February 1 and August 1 in each year, commencing February 1, 1979. Interest and principal are payable at the Corporate Agency Division of the paying agent,

Bank of America N.T. & S.A., Los Angeles or San Francisco, California, or at paying agents of the District in New York, New York and Chicago, Illinois.

## Redemption Provisions

Bonds maturing on or before August 1, 1992, a total principal amount of \$1,345,000, are not subject to call and redemption prior to their fixed maturity dates. Bonds maturing on or after August 1, 1993, a total principal amount of \$2,905,000, are subject to call and redemption, at the option of the District, as a whole or in part in inverse order of maturity and by lot within a single maturity on August 1, 1992, or on any interest payment date thereafter, upon payment of a redemption price equal to the principal thereof plus a premium of one-fourth of one percent of such principal amount for each year or fraction of a year from the redemption date to the maturity date of the Bonds called for redemption. The maximum premium payable upon call of the Bonds for redemption on or after August 1, 1992 would be three percent.

## Notice of Redemption

Notice of redemption is to be published in a financial newspaper or financial journal, published in the City of New York, New York. The first publication must be at least 30 days but not more than 60 days prior to the redemption date. The paying agent is required to give written notice to the owners of any registered Bonds.

## Registration

The Bonds will be issued as coupon bonds and will be registrable only as to both principal and interest, with the privilege of discharge from registration and re-registration, all in accordance with the provisions in the resolution providing for the issuance of the Bonds.

## Purpose and Disposition of Bond Proceeds

The proceeds from the sale of the Bonds will be used to finance construction of water system improvements, as detailed in the section of this official statement entitled "The Projects."

Under the provisions of the Resolution of Issuance for the Bonds, bond proceeds will be applied as follows:

(1) A sum equal to 18 months' average annual bond service on the Series A Bonds will be deposited in the Reserve Fund established for the Series A Bonds.

(2) The balance, which will include a sum equal to the first two years' interest on the Series A Bonds, will be deposited in the Construction Fund.

The estimated amount of Bond proceeds to be used for each of the specified purposes is as shown in the tabulation below.

### 1968 Water Bonds, Series A

#### Disposition of Bond Proceeds

Total project costs .....	\$3,034,000
Funded Interest (24 months @ 7%) .....	595,000
Reserve Fund (18 months' average annual bond service) .....	550,000
Provision for bond discount (1½ % maximum) .....	63,750
Costs of issuance .....	75,000
Subtotal .....	\$4,317,750
Less Interest earnings .....	(67,750)
Principal Amount of Bonds ..	<u>\$4,250,000</u>

## Additional Bonds

After sale of the Series A Bonds currently offered, Improvement District No. 2-W will have \$15,750,000 authorized but unsold 1968 general obligation bonds.

## Tax Exempt Status

In the opinion of Bond Counsel, interest on the Bonds is exempt from present federal income taxes and from State of California personal income taxes under existing statutes, regulations and court decisions.

## Security

The Bonds are general obligations of Improvement District No. 2-W of the Santa Margarita Water District and the Board of Directors has the power and is obligated to levy annual ad valorem assessments for payment of the Bonds and the interest thereon upon land only within the Improvement District without limitation as to rate or amount. The foregoing obligations, however, may be limited by bankruptcy, insolvency, or other laws affecting the enforcement of creditor's rights. At the option of the

Board of Directors, other Improvement District funds which are not special purpose funds restricted by law to specific uses may be used to meet bond service.

It is noted that the District Board of Directors have adopted a policy regarding the method by which moneys will be raised from water sales, ad valorem assessments, standby charges, connection fees and acreage assessments. This policy states that all water system expenses including bond service will be met from: (a) Water sales rates maintained at their current level, except to adjust them for changes in purchased water costs and operating costs; (b) Ad valorem assessment rate will not exceed \$5.00 per \$100 assessed value of land only; (c) Acreage assessment rate will not exceed \$5.00 per year per developed residential lot, or its equivalent. The balance of necessary revenues will be obtained from: (d) Connection fees paid by developers; (e) Acreage assessments levied on undeveloped lands; and (f) Miscellaneous revenue sources of the District.

### **Tax Limitation—Initiative Constitutional Amendment**

At the June 6, 1978 statewide election, the voters approved Proposition 13, a measure entitled "Tax Limitation—Initiative Constitutional Amendment," commonly known as the "Jarvis-Gann Initiative."

The office of the Attorney General provided the following summary of the measure for the election:

**"TAX LIMITATION—INITIATIVE CONSTITUTIONAL AMENDMENT.** Limits ad valorem taxes on real property to 1% of value except to pay indebtedness previously approved by voters. Establishes 1975-1976 assessed valuation base for property tax purposes. Limits annual increases in value. Provides for reassessment after sale, transfer, or construction. Requires 2/3 vote of Legislature to enact any change in state taxes designed to increase revenues. Prohibits imposition by state of new ad valorem, sales, or transaction taxes on real property. Authorizes imposition of special taxes by local government (except on real property) by 2/3 vote of qualified electors. Financial impact: Commencing with fiscal year beginning July 1, 1978, would result in annual losses of local government property tax revenues (approximately \$7 billion in 1978-79 fiscal year), reduction in annual state costs (approximately \$600 million in 1978-79 fiscal year), and restriction on future ability of local governments to finance capital construction by sale of general obligation bonds."

The legality of the Initiative is being challenged in several court proceedings. The District cannot predict whether or not the validity of the Initiative will be upheld, in whole or in part, by the courts. However, if the measure is upheld by the courts, ad valorem assessments of the District and of improvement districts thereof for purposes other than the payment of the debt service on bonds of the District or of an improvement district thereof approved by the voters would be substantially reduced. The District cannot predict or give assurance that the Initiative, if upheld by the courts, will not affect the District's ability to levy and collect charges to holders of title to land, sometimes referred to as water availability charges or acreage assessments, which may be used to defray the ordinary operation and maintenance expenses of the District or of an improvement district thereof. However, the District may levy various service charges, availability charges, connection fees and special assessments based on service and/or the availability of service, all of which are sufficient to meet the District's operating fund needs.

On June 24, 1978, emergency legislation addressing the same subject was enacted into law as Chapter 292. Pursuant to the provisions of the Jarvis-Gann Initiative and of Chapter 292, the assessed valuation of property for property tax purposes is established as the full cash value thereof as shown on the 1975/76 assessment rolls. The assessed valuation so established may be increased up to 2% per year for each year thereafter to reflect a change in the cost of living and may also be increased on a change of ownership, on a purchase and upon new construction. The State Legislature, by adopting Chapter 292, which adds Section 2235(a) to the Revenue and Taxation Code, has provided that ad valorem assessments on land only shall be considered ad valorem taxes for the purposes of the limitation set forth in the Jarvis-Gann Initiative.

**The Series A Bonds were voter-approved and in the opinion of the District's Bond Counsel, notwithstanding the passage of Proposition 13, the District is obligated to levy annual ad valorem assessments for payment of the Bonds and the interest thereon upon land only within the Improvement District without limitation as to rate or amount.**

### **Legal Opinion**

The unqualified opinion of Stradling, Yocca, Carlson & Rauth, Newport Beach, California, Bond Counsel for the District, attesting to the validity of

the Bonds, will be supplied free of charge to the purchaser of the Bonds. A copy of the legal opinion, certified by the official in whose office the original is filed, will be printed on each Bond without charge to the successful bidder.

## **Legality for Investment**

It is expected that the Bonds will be certified by the State Treasurer of the State of California, pursuant to the investigation by the State Treasurer, as legal investments in California for all trust funds and for the funds of all insurance companies, commercial banks, savings banks subject to Section 1359 of the Financial Code, trust companies, the State, school funds and any funds which may be invested in county, municipal or school district bonds, and as eligible security for the deposit of public moneys in banks in the State.

However, notwithstanding such certification, in the opinion of bond counsel, the eligibility of the Bonds at the time of their issuance for the investment of funds of commercial or savings banks, as such, is subject to the provisions of the Financial Code of the State of California. The Bonds are believed by the District to be not presently eligible for investment by commercial and savings banks under the provisions of the Financial Code.

## **Certificate Concerning Official Statement**

At the time of payment for and delivery of the Bonds, the District will furnish the successful bidder a certificate, signed by an appropriate officer of the District, acting in his official capacity, to the effect that to the best of his knowledge and belief, and after reasonable investigation: (a) Neither the official statement relating to the Bonds nor any amendment or supplement thereto contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances in which they

were made, not misleading; (b) since the date of the official statement no event has occurred which should have been set forth in an amendment or supplement to the official statement which has not been set forth in such an amendment or supplement; nor (c) has there been any material adverse change in the operation or financial affairs of the District since the date of such official statement.

## **Other Closing Documents**

In addition to the opinion of Bond Counsel and the Certificate Concerning Official Statement described above, the District will, at the time of delivery of the Bonds, furnish the purchaser the following documents, all to be dated as of the date of delivery:

1. *Arbitrage Certificate.* A certificate of a responsible officer of the District certifying that, on the basis of the facts and circumstances in effect at the time of delivery of the Bonds, it is not intended that the proceeds of the Bonds will be used in a manner that will cause the Bonds to be arbitrage bonds.

2. *Signature—No Litigation Certificate.* A certificate of the respective officers and representatives of the District showing that they have signed the Bonds by manual or facsimile signature, that they were duly authorized to execute the same, and that there is no litigation threatened or pending affecting the validity of the Bonds.

3. *Treasurer's Receipt.* The receipt of the Treasurer of the District showing that the purchase price of the Bonds, including accrued interest to the date of delivery (if any), has been received by the District.

## **Estimated Annual Bond Service**

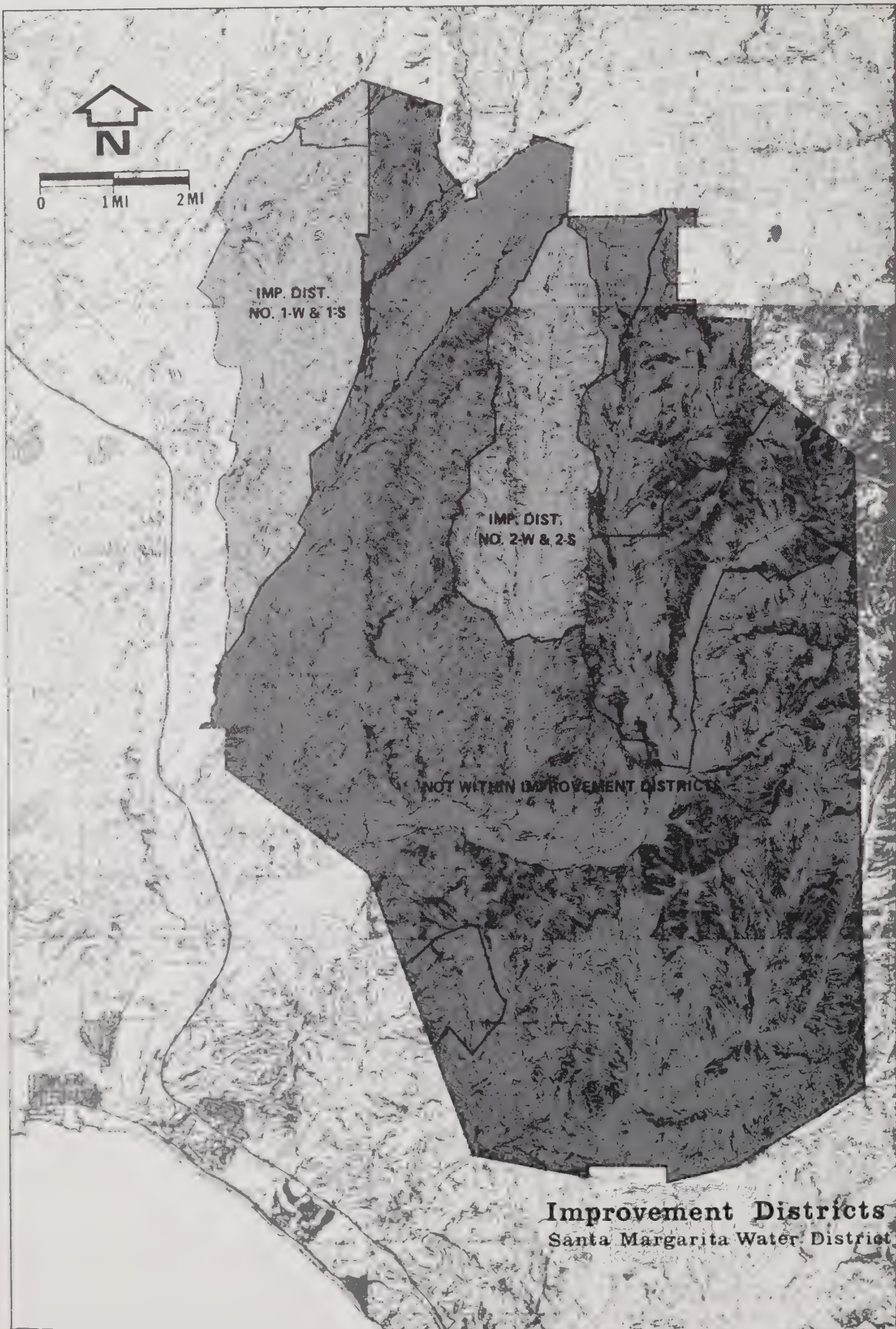
Table 1 on the page opposite presents an estimate of annual bond service for the \$4,250,000 principal amount of 1968 Water Bonds, Series A. Interest is estimated at seven percent per annum.

**Table 1**  
**SANTA MARGARITA WATER DISTRICT**  
**IMPROVEMENT DISTRICT NO. 2-W**  
**Estimated Annual Bond Service**

Year Ending August 1	Principal Outstanding	Interest Estimated at 7%	Principal Maturing August 1	Total Bond Service
1979 .....	\$4,250,000	\$ 297,500 <sup>①</sup>	\$ —	\$ 297,500
1980 .....	4,250,000	297,500 <sup>①</sup>	65,000	362,500
1981 .....	4,185,000	292,950	70,000	362,950
1982 .....	4,115,000	288,050	75,000	363,050
1983 .....	4,040,000	282,800	80,000	362,800
1984 .....	3,960,000	277,200	85,000	362,200
1985 .....	3,875,000	271,250	95,000	366,250
1986 .....	3,780,000	264,600	100,000	364,600
1987 .....	3,680,000	257,600	110,000	367,600
1988 .....	3,570,000	249,900	115,000	364,900
1989 .....	3,455,000	241,850	125,000	366,850
1990 .....	3,330,000	233,100	135,000	368,100
1991 .....	3,195,000	223,650	140,000	363,650
1992 .....	3,055,000	213,850	150,000	363,850
1993 .....	2,905,000	203,350	165,000 <sup>②</sup>	368,350
1994 .....	2,740,000	191,800	175,000 <sup>②</sup>	366,800
1995 .....	2,565,000	179,550	185,000 <sup>②</sup>	364,550
1996 .....	2,380,000	166,600	200,000 <sup>②</sup>	366,600
1997 .....	2,180,000	152,600	210,000 <sup>②</sup>	362,600
1998 .....	1,970,000	137,900	225,000 <sup>②</sup>	362,900
1999 .....	1,745,000	122,150	245,000 <sup>②</sup>	367,150
2000 .....	1,500,000	105,000	260,000 <sup>②</sup>	365,000
2001 .....	1,240,000	86,800	280,000 <sup>②</sup>	366,800
2002 .....	960,000	67,200	300,000 <sup>②</sup>	367,200
2003 .....	660,000	46,200	320,000 <sup>②</sup>	366,200
2004 .....	340,000	23,800	340,000 <sup>②</sup>	363,800
Total .....		\$5,174,750	\$4,250,000	\$9,424,750

① To be paid from Bond proceeds.

② Callable on or after August 1, 1992.



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# DISTRICT ORGANIZATION AND FACILITIES

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## Formation and Organization

The Santa Margarita Water District was formed in 1964 pursuant to the California Water District Law (California Water Code Section 34000 et seq.). The District is a landowner-vote district. District formation, election of officers, and authorization of bonds are by vote of qualified electors, defined under the law as owners of the land.

The District is aware of a request by the City Council of the City of Irvine through Assemblyman Ron Cordova, for an opinion of the Attorney General of the State of California as to the constitutionality of landowner voting under a special statute relating only to the Irvine Ranch Water District, a California Water District formed pursuant to the California Water District Law. Two lawsuits have been filed in the Superior Court in and for the County of Orange against the Irvine Ranch Water District re the constitutionality of its voting procedures, to wit: *James O'Toole and Robert Mitchell, as individuals and on behalf of the class of all other persons similarly situated; Irvine Tomorrow, a non-profit corporation v. Irvine Ranch Water District et al.*; and *City Council of the City of Irvine v. Irvine Ranch Water District et al.* If the plaintiffs prevail in this litigation, it could affect the future manner of voting for directors and for the authorization of bonds in all California Water Districts. The District's Bond Counsel is of the opinion that any change in the method of voting will not adversely affect the validity of the Bonds or the security for the payment thereof.

The District is governed by a five-member Board of Directors ("the Board") elected on a staggered basis for four-year terms. The present board members and principal staff members are as follows:

Thomas C. Blum—*President of the Board*. Mr. Blum is Vice President of Viejo Management Company and has served on the Board since 1975. Viejo Management Company operates Rancho Mission Viejo Properties.

Robert S. Clark—*Vice President of the Board*. A Vice President of Viejo Management Company, Mr. Clark is Assistant Manager in charge of agriculture for Rancho Mission Viejo. Mr. Clark was elected to the Board in November 1977.

Don B. Schone—*Vice President of the Board*. Mr. Schone, a resident of Mission Viejo, joined the Board in August 1977. Mr. Schone, a civil engineer, is presently Project Engineer for the San Onofre Nuclear Project for the Southern California Edison Company.

Robert Wilhelm—*Vice President of the Board*. Mr. Wilhelm is Executive Vice President and General Manager of Coto de Caza Development Corporation, and has served on the Board since 1975.

Warren W. Wilson—*Vice President of the Board*. Mr. Wilson is a Trust Officer at Crocker National Bank and has served on the Board since 1964. Crocker National Bank is the Trustee of a trust controlling one-third of Rancho Mission Viejo.

W. W. Knitz—*General Manager*. Mr. Knitz has served as District General Manager since 1975. He holds a Bachelor of Civil Engineering Degree from Marquette University. Prior to joining the District, Mr. Knitz spent over 20 years in consulting civil engineering.

James H. Smith—*Chief Engineer*. Mr. Smith has been with the District since 1973. He holds a Bachelor of Science Degree in engineering from California Polytechnic University and is a registered professional engineer in California.

Michael P. Lord—*Finance Director*. Mr. Lord has been with the District since 1977. He has been directing the fiscal operations for utility, engineering, and construction firms for the past eight years.

Fritz R. Stradling—*Secretary*. Mr. Stradling is a partner in the law firm of Stradling, Yocca, Carlson & Rauth, Newport Beach, California.

Major landholders and their approximate ownerships or options within the District include the following:

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Rancho Mission Viejo .....	40,450 acres
Mission Viejo Company .....	6,655 acres
Starr Viejo Park .....	5,500 acres
Coto de Caza Development Corp. ...	4,930 acres
Audubon Society Preserve .....	3,800 acres
Top of the Starr .....	875 acres
Prima Deshecha Regional Park site ..	950 acres
Total .....	63,160 acres

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## Improvement Districts

The District includes ten Improvement Districts. All four are governed and operated by the District's Board of Directors and staff and have no separate employees.

Improvement Districts Nos. 1-W and 1-S are coterminous districts established August 21, 1968 by resolution of the Board of Directors of the District. Improvement Districts Nos. 1-W and 1-S were formed to finance water improvements and sewerage improvements, respectively, in the westerly portion of the Santa Margarita Water District known as Mission Viejo.

These improvement districts cover approximately 6,655 acres. Mission Viejo generally parallels Interstate 5, the San Diego Freeway. The improvement districts are bordered on the west by another recently urbanized Mission Viejo area that lies within the Moulton-Niguel Water District. As of January 31, 1978, there were about 4,800 occupied dwelling units with an estimated population of 16,600 in the improvement districts.

The District established on May 23, 1978 Improvement District No. 1A-WS, which is located entirely within Improvement Districts Nos. 1-W and 1-S. The purpose of this improvement district is to authorize bonds in the amount of \$39,000,000 to finance construction of water and sewer facilities within the uninhabited portions of Improvement Districts Nos. 1-W and 1-S.

Improvement Districts Nos. 2-W and 2-S are coterminous districts established August 21, 1968 and January 20, 1975, respectively, by resolutions of the Board of Directors of the District. Improvement Districts Nos. 2-W and 2-S were formed to finance water improvements and sewerage improvements in the north central portion of the Santa Margarita Water District known as Coto de Caza.

In July 1968, the original engineering report and plan of works for the development of water supply in Improvement District No. 2-W was prepared.

A revised plan of works was prepared in December 1974. To reflect major changes in the development plan for Coto de Caza which occurred subsequent to this plan, the engineering consultant, Robert Bein, William Frost & Associates of Newport Beach, California, prepared a revised plan of works for water system facilities dated February 1978.

As of April 30, 1978, there were 60 occupied dwelling units plus another 60 units under construction within Improvement District No. 2-W, with an approximate population of 300.

The District also established on May 23, 1978 Improvement Districts Nos. 3, 4, 5, 6 and 7. These Improvement Districts are located entirely outside Improvement Districts Nos. 1-W, 1-S, 2-W and 2-S. They were formed to authorize bonds in the aggregate amount of \$1,360,000,000 to finance construction of water and sewer facilities to service areas of the District not within Improvement Districts Nos. 1-W, 1-S, 2-W and 2-S. The overall District is now entirely covered by improvement districts, except for areas which are not anticipated to require water or sewer services in the future.

## Water Supply

The Santa Margarita Water District is a constituent agency of the Municipal Water District of Orange County (MWDOC). MWDOC acts as a wholesale importer of water from the Metropolitan Water District of Southern California (MWD); therefore, Santa Margarita Water District is entitled to receive water from available sources of MWD. The Santa Margarita Water District has an agreement with the Santa Ana Mountains County Water District to construct a joint transmission main system and to provide an interim two cfs water supply to meet the current water needs of Improvement District No. 2-W and pipeline capacity for a permanent water supply of 2 cfs for the ultimate water needs of the Improvement District. Another agreement with the Santiago County Water District provides for an interim one cfs water supply and an emergency interconnection. In addition, the Santa Margarita Water District is in the process of acquiring capacity in the proposed Diemer Intertie-Santiago Aqueduct System. Imported water from this source is proposed as the permanent supply for Improvement District No. 2-W, with an ultimate capacity of 12.3 cfs.

As a part of this plan, the District has contracted to participate in the importation projects sponsored by the MWDOC to import at least 325 cubic feet per second (cfs) of treated water and to expand the existing untreated Santiago Aqueduct facilities. The Santa Margarita Water District's portion is planned at 50 cfs of treated water capacity and 25 cfs of untreated water capacity.

## Sewage Treatment and Disposal

Santa Margarita Water District is a member of a joint powers agency known as the South East Regional Reclamation Authority (SERRA). SERRA proposes to own and operate a regional sewage

treatment plant near the coastal communities of Dana Point and Capistrano Beach. The plant is currently operated by the City of San Juan Capistrano. At the present time Santa Margarita Water District owns one million gallons per day (mgd) capacity in this plant, which serves Improvement District No. 1-S. Improvement District No. 2-S is currently served by a District-owned centralized septic tank and oxidation pond treatment system with a capacity of 116,000 gallons per day.

The District is currently studying alternative methods of providing for the ultimate sewage treatment facilities for Improvement District No. 2-S, including both water reclamation and ocean disposal alternatives through SERRA facilities.

### Water and Sewer Connections

The upper tabulation to the right presents a summary of projected water and sewer connections and water demands and sewage flow from 1977/78 through 1984/85. The figures are combined domestic and irrigation water demands.

### Water and Sewer Rates and Charges

The District is presently paying Waterworks District No. 4 \$84 per acre foot of Colorado River and blended water. The District pays its share of sewerage system operation and maintenance based on actual flows. A revenue program is now being developed for the SERRA facilities in accordance with Federal and State guidelines.

The lower tabulation to the right summarizes the charges to residents for water and sewer service in Improvement Districts Nos. 2-W (water) and 2-S (sewer).

### Operation and Maintenance

The District performs all operation and maintenance of water and sewer facilities within the District. The District also provides administrative

services, including customer relations, billing and collection services. The District currently has 26 employees.

### SANTA MARGARITA WATER DISTRICT IMPROVEMENT DISTRICT NO. 2-W

#### Projected Water and Sewer Demands<sup>①</sup>

Year Ending June 30	Occupied Domestic Connections	Average Daily Water Demand (cu. ft./sec.)	Sewage Flow (million gal./day)
1977 . . . . .	27	0.22	.04
1978 . . . . .	120	0.66	.07
1979 . . . . .	245	1.10	.13
1980 . . . . .	370	1.80	.16
1981 . . . . .	495	2.35	.20
1982 . . . . .	645	2.98	.26

<sup>①</sup> Based on projected occupied dwelling units; not on lots available for development.

Sources: 1976-77 Annual Report and 1978-83 District projections.

### SANTA MARGARITA WATER DISTRICT IMPROVEMENT DISTRICTS

#### NOS. 2-W AND 2-S

#### Bi-Monthly Water Rates and Sewer Charges\*

##### WATER:

##### Domestic and

Construction . \$16 minimum for 800 cu. ft. plus  
\$51 per 100 cu. ft. to 5,000 cu. ft.  
\$41 per 100 cu. ft. over 5,000 cu. ft.

Irrigation . . . . \$40 minimum plus  
\$43 per 100 cu. ft.

SEWER . . . . . \$10 bi-monthly

\*Effective July 1, 1977.



Recently completed homes (top photo) and condominium units under construction (bottom photo) in Coto de Caza.

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# THE PROJECT

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## Financing Policy

The District finances the design and construction of all major water and sewerage facilities by issuance of general obligation bonds. Present District financing policy is to maintain a stable system of user charges and property tax rates. Any additional revenues necessary to finance District operations (including bond service requirements) are derived from connection fees from developers and acreage assessments on undeveloped land.

## Reimbursement Agreements

There are three Reimbursement Agreements between the District and Coto de Caza Development Corporation. The first agreement, dated August 15, 1977, provides that the Corporation will advance \$10,900 to fund the development of plans of works for Improvement Districts 2-W and 2-S. The second agreement, dated April 5, 1978, provides that the Corporation will be reimbursed \$243,394 for a pipeline. The third agreement, dated May 22, 1978 and amended June 19, 1978 provides the Corporation will be reimbursed \$403,100 for certain water facilities constructed and \$429,573 for additional water facilities to be completed prior to receipt of Bond proceeds. The District will reimburse all but \$60,173 of these amounts from proceeds of the first bond sales for these improvement districts, subject to State Treasurer approval. The \$60,173 excluded from repayment from the first bond sale will be reimbursed from future water bond sales.

## The Project

The Series A Water Bonds currently offered for sale will be used to finance water importation pipelines, including improvements to both the joint Santa Margarita Water District and Santa Ana Mountains County Water District system and the Santa Margarita Water District system; water transmission pipelines within the District; pressure reducing stations; an emergency domestic water supply facility; and repayment of loans by Coto de Caza

Development Corporation to finance certain water system improvements already constructed.

All projects are to be constructed within eighteen months with construction commencing in late Summer 1978. Table 2 below presents a summary of estimated project and financing costs to be financed by the Series A Bonds, based on estimates prepared by the District's consulting engineers. All estimates include anticipated inflation factors to the dates of construction.

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**Table 2**  
**SANTA MARGARITA WATER DISTRICT**  
**IMPROVEMENT DISTRICT NO. 2-W**  
**Estimated Project and Financing Costs**

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### Project Costs<sup>①</sup>:

Water Importation—Joint System:	
Pipelines .....	\$ 912,700
Pump stations .....	84,500
Emergency intertie .....	124,400
Pipeline capacity purchase .....	65,000
Engineering and administration .	127,800
Contingencies .....	81,900
Subtotal .....	\$1,396,300
Water Importation—SMWD System:	
Pipelines .....	\$ 81,600
Pump stations .....	86,400
Engineering and administration .	25,200
Contingencies .....	16,100
Subtotal .....	\$ 209,300
Water Supply/Transmission:	
Pipelines .....	\$ 749,400
Pressure reducing stations .....	73,400
Engineering and administration .	123,500
Contingencies .....	79,000
Subtotal .....	\$1,025,300
Reimburse developer loans .....	403,100
Less interest earnings .....	(67,750)
Total Project Costs .....	\$2,966,250

### Financing Costs:

Interest during construction (24 months @ 7%) .....	\$ 595,000
Reserve fund (18 mos. average annual bond service) .....	550,000
Allowance for discount (1½%) ..	63,750
Costs of bond issuance .....	75,000
Total Financing Costs ....	\$1,283,750
Total Bond Issue .....	\$4,250,000

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① Estimates of Robert Bein, William Frost & Associates, District's consulting engineers.

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## Environmental Considerations

The water projects described above are subject to the provisions of the California Environmental Quality Act (Public Resources Code, Section 21000 et seq.)

Environmental impact assessments of the proposed water system improvements were made based on

approved environmental impact reports covering the development to be served by the bond financed facilities and negative declarations adopted by the Board of Directors of the District on March 16, 1978. Notices of Determination were filed with the Orange County Clerk on March 21, 1978 and on April 10, 1978.

View of Coto de Caza with The Vic Braden Tennis College and adjoining tennis courts in the center and surrounding new homes.



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# COTO de CAZA

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## Coto de Caza Development Corporation

The Coto de Caza Development Corporation (CDC) is a wholly-owned subsidiary of Great Southwest Corporation (GSC). The Pennsylvania Company (Pennco) owns 94% of the outstanding voting capital stock of GSC. Pennco is owned 100% by the Penn Central Transportation Company (PCTC). PCTC has been under reorganization since June 1970 under Section 77 of the Federal Bankruptcy Act. Since that time, neither Pennco nor GSC has been in bankruptcy or directly involved with the bankruptcy proceedings of PCTC. Financial statements for GSC are summarized on pages 18 and 19 of this official statement.

In 1963, Macco Corporation, a subsidiary of GSC, purchased the 4,930-acre Coto de Caza property from the Ernest Bryant family. In 1968, Macco Corporation formed a syndicated partnership with 400 limited partners to build the recreation amenities and to develop the first tract of 400 lots.

Bonnie Valley Corporation, another subsidiary of GSC, purchased the limited partnership in July 1972. In April 1975, Bonnie Valley Corporation became CDC.

Coto de Caza Development Corporation has since developed a master plan for the Coto de Caza development and has scheduled the sale of estate lots and condominiums in 1978 as the initial phase of this six-phase master plan. CDC also operates the Club de Caza, The Vic Braden Tennis College, Coto de Caza Realty and the Coto de Caza guest lodge/conference center.

The development plans for Coto de Caza have been developed by a group of consulting environmental engineers, planners and architects. The plans of works for the water and sewer systems have been prepared by Robert Bein, William Frost & Associates, Newport Beach, California. Other involved consultants include Phillips, Brandt, Reddick, Newport Beach; George Bissell, FIA/Frank August & Associates, Newport Beach; Leighton & Associates, Irvine; and W. A. Wahler & Associates, Newport Beach.

Principal officers of Coto de Caza Development Corporation are as follows:

Bruce C. Juell, *President*  
Robert Wilhelm, *Executive Vice President*  
Calvin P. Andrews, *Vice President*  
Roger Bartosh, *Vice President*  
Victor Braden, *Vice President*  
Harold C. Mills, *Vice President*  
Gary Nielsen, *Vice President—Secretary*

Recently completed clubhouse/dining facility in Coto de Caza.



## Current Development

Capital investment through April, 1978, in the Santa Margarita Water District by CDC is \$26.1 million. The developer's plans for the near future include development of residential estate lots, a golf course, a lodge/hotel facility, resort condominiums and supporting community services. Coto de Caza is planned to be a private community of approximately 2,000 dwellings with extensive recreational facilities on the 4,930-acre site. Current plans for the project also include a destination resort complex consisting of a 100-room lodge and an 18-hole golf course coordinated with the operations of the existing club, tennis college and conference center.

As of May 18, 1978, CDC had 475 lots which had received all necessary approvals for immediate construction. Approximately 60 homes were completed and occupied and an additional 60 homes were under construction on these lots. Thus, a total of 120 homes were occupied or being readied for occupancy within the District.

In addition, 28 attached residential units (condominiums) were under construction. CDC plans to sell initially not more than 22 of these units and retain ownership of at least six units which will be added to the existing inventory of 28 guest lodge rental units.

CDC projects that the development will be completely sold out by 1990. Since the bulk of the land will be sold as improved building lots, the build-out rate of homes is difficult to project. However, it is possible that the entire project could be built-out by the mid to late 1990's.

The three tabulations following summarize current investment by CDC in Improvement Districts Nos. 2-W and 2-S, and projections of upcoming development.

### CURRENT COTO de CAZA DEVELOPMENT CORPORATION INVESTMENT WITHIN SANTA MARGARITA WATER DISTRICT IMPROVEMENT DISTRICTS NOS. 2-W and 2-S

	Amount Invested April 30, 1978
Residential work in process .....	\$ 4,000,000
Undeveloped land .....	15,000,000
Recreation facilities .....	5,650,000
Public improvements .....	1,470,000
Total Investment .....	\$26,120,000

Source: Coto de Caza Development Corporation.

### COTO de CAZA DEVELOPMENT CORPORATION PROJECTED DEVELOPMENT IN IMPROVEMENT DISTRICTS NOS. 2-W and 2-S OF SANTA MARGARITA WATER DISTRICT

	1978	1979	1980	1981	1982
Single Family Units	100	125	125	75	50
Attached Units ...	28	—	—	50	100
Total Units .	128	125	125	125	150

#### Commercial (1978-82)

#### Area

Conference center lodge .....	75,000 sq. ft.
General store .....	2,300 sq. ft.
Conference center expansion .....	10,000 sq. ft.
18-hole golf course .....	

Source: Coto de Caza Development Corporation, May 1978.

Coto de Caza Conference Center.



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## COTO de CAZA

### COMPLETED DEVELOPMENT, APRIL 30, 1978

---

60 occupied homes  
28 guest lodge units (64 rental rooms)  
Clubhouse/spa/dining facility (36,000 sq. ft.)  
Conference center  
Hunt lodge/dining facility  
Equestrian center  
Vic Braden Tennis College  
16 tennis courts

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Source: Coto de Caza Development Corporation.

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## Home/Land Values

The tabulation to the right presents current price ranges for homes and lots in Coto de Caza. The tracts with available lots as of June 1, 1978 are Tracts Nos. 6970 and 9507. Of the 475 lots in these tracts, 60 homes are occupied while an additional 60

are under construction. An additional 105 lotowners have filed home construction plans with their respective homeowners' associations for review and approval.

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## COTO de CAZA

### Home/Land Prices

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Tract	Price Range
<hr/>	
Tract No. 6970	
Resale lots .....	\$ 40,000-\$ 75,000
Custom homes .....	\$150,000-\$250,000
Tract No. 9507	
Estate lots .....	\$100,000-\$400,000
Tract No. 10066	
Condominiums① .....	\$129,500

① 1,860 sq. ft.-furnished.

Source: Coto de Caza Development Corporation.

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Typical new homes in Coto de Caza.



## Company Financial Data

Being a subsidiary of Great Southwest Corporation, separate financial statements are not published for Coto de Caza Development Corporation. Tables 3 and 4 below and on the next page present a con-

solidated five year summary of operations and December 31, 1976 and 1977 balance sheets for the parent company, which include all subsidiaries. The tables were extracted from the 1977 Annual Report for Great Southwest Corporation, copies of which may be obtained from said corporation.

**Table 3**

### **GREAT SOUTHWEST CORPORATION<sup>①</sup>**

#### **Consolidated Five Year Summary of Operations (\$000)<sup>②</sup>**

	Year Ended December 31,				
	1973	1974	1975	1976	1977
Revenues:					
Amusement parks .....	\$59,232	\$ 66,942	\$77,522	\$ 99,021	\$112,862
Real estate .....	12,453	10,030	9,505	9,836	12,450
Total revenues .....	\$71,685	\$ 76,972	\$87,027	\$108,857	\$125,312
Costs and expenses:					
Amusement parks .....	\$45,311	\$ 50,546	\$59,197	\$ 72,401	\$ 85,352
Real estate .....	7,746	8,613	7,277	7,475	9,469
Total costs and expenses .....	\$53,057	\$ 59,159	\$66,474	\$ 79,876	\$ 94,821
Operating income:					
Amusement parks .....	\$13,921	\$ 16,396	\$18,325	\$ 26,620	\$ 27,510
Real estate .....	4,707	1,417	2,228	2,361	2,981
Total operating income .....	\$18,628	\$ 17,813	\$20,553	\$ 28,981	\$ 30,491
Other expenses:					
Interest .....	\$16,070	\$ 16,250	\$11,139	\$ 10,150	\$ 9,321
Corporate general and administrative .....	2,036	2,193	1,740	1,695	2,934
Provision for loss on foreign currency exchange .	—	1,955	—	—	—
Write-off of intangible assets and provisions for loss on disposition of assets .....	—	12,289	—	4,814	—
Income (loss) from continuing operations .....	\$ 522	\$(14,874)	\$ 7,674	\$ 12,322	\$ 18,236
Income tax (expense) benefit .....	(271)	29	(3,955)	(5,495)	(7,943)
Loss from discontinued operations .....	(385)	(16,044)	—	—	—
Income from extraordinary item .....	202	—	3,778	6,744	7,428
Net income (loss) .....	\$ 68	\$(30,889)	\$ 7,497	\$ 13,571	\$ 17,721

<sup>①</sup> For parent corporation and consolidated subsidiaries.

<sup>②</sup> Source: Great Southwest Corporation 1977 Annual Report. Copies of said report, including all notes to financial statements, are available upon request to Great Southwest Corporation.

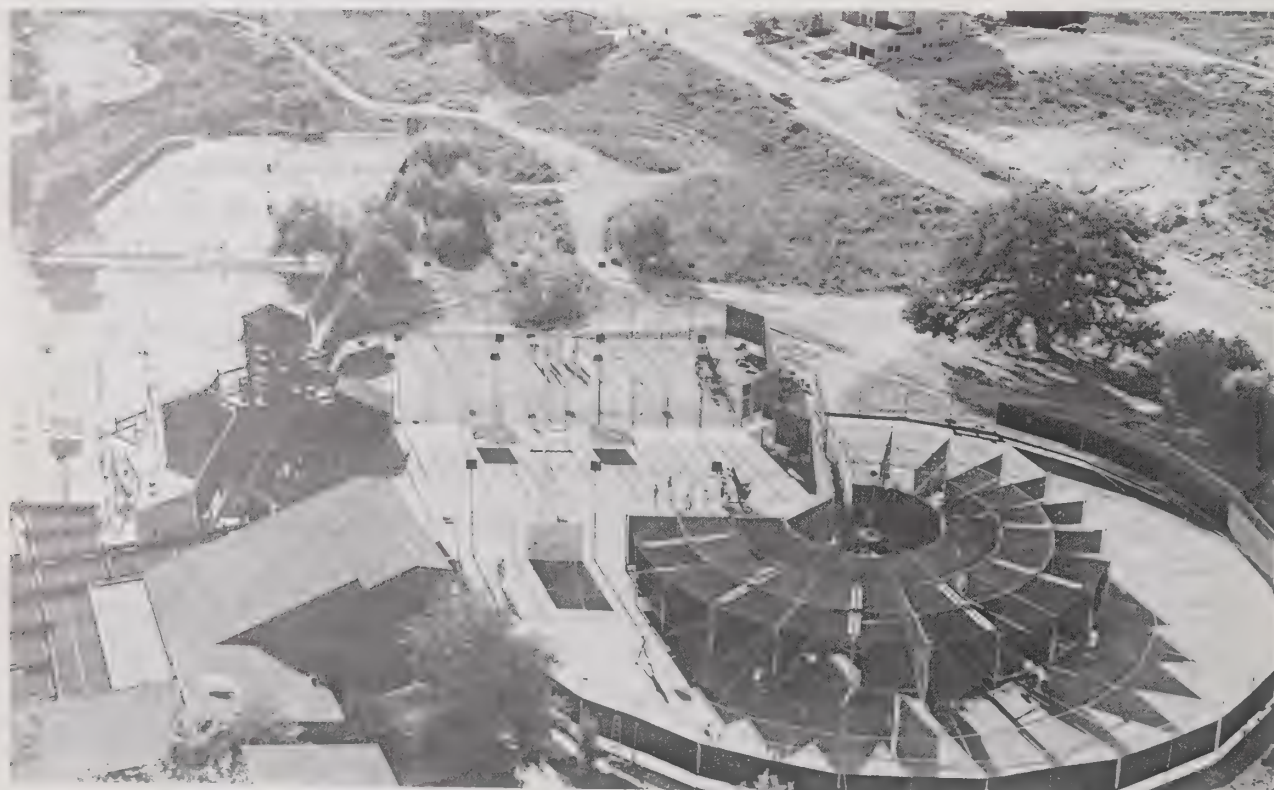
Table 4

GREAT SOUTHWEST CORPORATION<sup>①</sup>Balance Sheets<sup>②</sup>

	December 31, 1976	December 31, 1977
<b>ASSETS (Substantially Pledged)</b>		
Current assets:		
Cash .....	\$ 1,252,000	\$ 2,708,000
Short-term investments, at cost .....	16,593,000	21,040,000
Receivables .....	1,248,000	2,041,000
Inventories, at the lower of cost (principally first-in, first-out) or market ...	1,711,000	1,856,000
Prepaid expenses .....	1,824,000	2,317,000
Total current assets .....	\$ 22,628,000	\$ 29,962,000
Receivables due after one year, less valuation allowances .....	13,008,000	10,338,000
Land held for development and sale, at cost less valuation allowances of \$627,000 and \$2,000 .....	22,746,000	24,473,000
Property, plant and equipment, at cost less accumulated depreciation .....	41,465,000	41,667,000
Investments in co-ventures, less accumulated amortization of \$18,614,000 and \$21,349,000 .....	21,836,000	24,749,000
Deferred charges and other assets .....	1,129,000	1,403,000
Total assets .....	<u>\$122,812,000</u>	<u>\$132,592,000</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term bank loans .....	\$ 2,618,000	\$ 5,600,000
Current portion of long-term debt .....	11,753,000	16,755,000
Accounts payable .....	906,000	1,162,000
Accrued liabilities .....	4,248,000	4,942,000
Income taxes payable .....	650,000	491,000
Total current liabilities .....	\$ 20,175,000	\$ 28,950,000
Other liabilities:		
Long-term debt .....	113,031,000	94,909,000
Accrued and estimated liabilities .....	3,435,000	5,299,000
Deferred income taxes .....	1,321,000	1,253,000
Total liabilities .....	\$137,962,000	\$130,411,000
Shareholders' equity:		
Cumulative preferred stock—		
Voting, \$20 par value, 1,000,000 shares authorized .....	\$ 10,093,000	\$ 10,093,000
Nonvoting, \$1 par value, 20,000,000 shares authorized .....	5,000,000	5,000,000
Common stock, \$2 par value, 10,000,000 shares authorized .....	8,393,000	8,393,000
Capital in excess of par value .....	94,042,000	94,042,000
Accumulated deficit .....	(132,511,000)	(115,180,000)
	(14,983,000)	2,348,000
Preferred stock in treasury, at cost .....	(167,000)	(167,000)
Total shareholders' equity .....	(15,150,000)	2,181,000
Total liabilities and shareholders' equity .....	<u>\$122,812,000</u>	<u>\$132,592,000</u>

① For parent corporation and consolidated subsidiaries.

② Source: Great Southwest Corporation 1977 Annual Report. Copies of said report, including all notes to financial statements, are available upon request to Great Southwest Corporation.



Aerial views of two recreational facilities in Coto de Caza: The equestrian center (top) and The Vic Braden Tennis College (bottom).

# FINANCIAL DATA

## Assessed Valuations

The Santa Margarita Water District uses the facilities of Orange County for the assessment and collection of taxes for District purposes. As a California Water District, the District taxes only land within its boundaries that is subject to taxation. Improvements and personal property are not taxable by the District. Ad valorem taxes are levied against taxable land located within Improvement District No. 2-W on the same basis. District taxes are collected at the same time and on the same tax rolls as are city, county and school district taxes. The California State Board of Equalization reports the 1977/78 Orange County valuations average 25.1 percent of full value except for public utility property, which is reported to be assessed at 25 percent of full cash value by the state.

The tabulation below presents the 1977/78 assessed valuations for the entire district and Improvement District No. 2-W.

### SANTA MARGARITA WATER DISTRICT and IMPROVEMENT DISTRICT NO. 2-W 1977/78 Assessed Valuation (Land Only)

Assessment Roll	I.D. No. 2-W	Entire District
Local Secured .....	\$3,918,960	\$38,861,110
Utility .....	—	6,030
Unsecured .....	—	761,380
Total .....	\$3,918,960	\$39,628,520

Source: Orange County Auditor-Controller.

The tabulations to the right show growth in assessed valuation (land only) since 1971/72 and the 1977/78 assessed valuation of all property (land, improvements and personal property) located within Improvement District No. 2-W. These valuations are before deduction of two types of exemptions (\$1,750

of the assessed valuation of an owner-occupied dwelling and 50 percent of the assessed valuations of business inventories) which do not result in any loss of revenues to local taxing agencies since the State of California reimburses an amount equal to the taxes which would have been payable on such exempt valuations.

As discussed on page 5 of this official statement, the Jarvis-Gann Initiative and the recently enacted Chapter 292 of the 1978 California Statutes provide for establishment of assessed valuations for property tax purposes at the 1975/76 full cash value plus certain allowable increases. Pursuant to the provisions of the Initiative and Chapter 292, the Orange County Assessor is currently developing the 1978/79 assessment rolls. As of the date of this official statement, the District's 1978/79 assessed valuation is not available.

### SANTA MARGARITA WATER DISTRICT and IMPROVEMENT DISTRICT NO. 2-W Growth in Assessed Valuation (Land Only)

Fiscal Year	I.D. No. 2-W	Entire District
1971/72 .....	\$1,961,390	\$ 6,779,770
1972/73 .....	2,245,250	8,931,770
1973/74 .....	2,037,970	10,390,720
1974/75 .....	1,981,450	13,084,140
1975/76 .....	2,135,640	18,320,640
1976/77 .....	2,742,710	24,645,840
1977/78 .....	3,918,960	39,628,520

Source: Orange County Auditor-Controller.

### SANTA MARGARITA WATER DISTRICT IMPROVEMENT DISTRICT NO. 2-W 1977/78 Assessed Valuations (All Property)

Roll	Net Assessed Valuation	State-reimbursed Exemptions	Assessed Valuation for Revenue Purposes
Secured .....	\$6,132,150	\$15,400	\$6,147,550
Utility .....	108,090	—	108,090
Unsecured ..	64,035	8,735	72,770
Total ...	\$6,304,275	\$24,135	\$6,328,410

Source: Orange County Auditor-Controller.

## Appraised Value

Land in Improvement District No. 2-W, Coto de Caza, has been appraised in connection with the Series A Bonds currently offered for sale on behalf of the improvement district. The appraised fair market value of land as of March 31, 1978 was reported to be \$32,000,000. A letter from Philip S. Jackson, M.A.I., summarizing the details of the appraisal, is reproduced on page A-1 of this official statement.

## Tax Rates

A tax rate for Improvement District No. 2-W was first levied in 1974/75 at \$.78 per \$100 assessed valuation on land only. The rate was \$.76 in 1975/76; none was levied in 1976/77 and the 1977/78 rate is \$.43 per \$100 assessed valuation on land only. The maximum rate allowable under California statutory tax rate limitations, other than to meet debt service on voter-approved general obligation bonds, is \$5.00 per \$100 assessed valuation on land only.

However, as noted previously, the District Board of Directors have adopted a revenue policy whereby all sewerage and water system expenditures, including bond service, will be met from water sales and sewer service charges; property taxes not to exceed a rate of \$5.00 per \$100 assessed valuation of land only, respectively, for each improvement district (2-W and 2-S), standby charges; connection fees; and acreage assessments on undeveloped lands.

Two tax rate areas were established within Improvement District No. 2-W for the 1977/78 fiscal year. The largest, tax rate area 82-106, has a 1977/78 assessed valuation of land only of \$3,918,860, or all but \$100 of the Improvement Districts' total. The upper tabulation opposite presents the total tax rates applying to this tax rate area in 1977/78.

The Jarvis-Gann Initiative will limit the total property tax bill on a property to 1% of the full cash value of said property as shown in 1975/76 plus certain allowable increases. In addition, a tax may be levied without limitation to meet debt service on voter-approved bonds, such as those currently offered. The Orange County Assessor is currently developing the 1978/79 assessment rolls and tax bills.

## Tax Levies and Delinquencies

Taxes on the local secured and utility rolls are payable in two installments on November 1 and

February 1 of each fiscal year, and become delinquent on December 10 and April 10, respectively.

The second tabulation below presents the amounts of secured taxes levied for Improvement District No. 2-W since 1974/75, the first year a tax was levied in the improvement district, with the amount and percent of current taxes delinquent on June 30 of each year.

### IMPROVEMENT DISTRICT NO. 2-W SANTA MARGARITA WATER DISTRICT Secured Tax Levies and Delinquencies

Fiscal Year	Secured Levy	Amount Delinquent June 30	Percent Delinquent June 30
1974/75 ....	\$15,504	\$ 33	.51%
1975/76 ....	16,224	75	.46
1976/77 ....	0	0	—
1977/78 ....	16,851	N.A.	N.A.

Source: Orange County Auditor-Controller.

### IMPROVEMENT DISTRICT NO. 2-W SANTA MARGARITA WATER DISTRICT 1977/78 Tax Rates/\$100 A.V. Tax Rate Area 82-106

	Tax Rate Area 82-106
Orange County .....	\$1.3300
County Library .....	.1546
Schools .....	5.2216
Fire Protection District .....	.3898
Flood Control District .....	.1888
Metropolitan Water District .....	.8700
Other special districts .....	.2175
Subtotal① .....	\$8.3723
Santa Margarita Water District .....	.5000
SMWD-I.D. 2-W .....	.4300
Subtotal② .....	.9300
Total .....	\$9.3023

① Levied on all property.

② Levied on land only.

Source: Orange County Auditor-Controller.

## Major Taxpayers

Orange County does not compile a list of principal ad valorem taxpayers in each particular taxing entity within the county.

However, as the owner of the most land, the principal ad valorem taxpayer in the improvement district is Coto de Caza Development Corporation. County records indicate this firm paid a total of \$8,991 in 1976/77, or almost 53.4 percent of the total secured levy for the improvement district. It is noted that these are taxes levied against and paid on the assessed valuation of land only.

## **Retirement System**

Employees of the District participate in a defined-benefit pension plan which is administered in accordance with a contract between the District and the State of California Public Employees' Retirement System (PERS). PERS is a statewide system operated pursuant to Title 2, Division 5, Part 3 of the Government Code. The most recently made actuarial valuation of the system, as of June 30, 1975, was made by the State's Actuarial Division. The report identified an "unfunded supplemental liability" of \$1,271,956,710, as of June 30, 1975, for the local miscellaneous employees group, which would include employees of the District. The "unfunded supplemental liability" for all other member groups (State Miscellaneous, State Safety, Highway Patrol, Local Safety and County Schools), as of June 30, 1975, was \$5,822,022,351. The report includes a discussion of new actuarial assumptions to provide for amortization of unfunded liabilities in the various member groups, within PERS. Additional information is available from State of California Public Employees' Retirement System, 1416 Ninth Street, Sacramento, California 95814.

The amount of the respective unfunded liabilities will vary from time to time depending upon the actuarial assumptions utilized, rates of return and salary scales. The present System policy is designed to satisfy the unfunded obligation by the year 2000.

According to the District's financial report for fiscal 1976/77, the total pension expense for the District's employees for that year was \$22,907. Pension costs are funded by monthly contributions to PERS. The excess, if any, of the actuarially computed value of vested benefits over the amounts available in the pension fund was not determined as of June 30, 1977.

## **Insurance in Effect**

As of July 1, 1977, the District had in effect the following insurance coverage: Bodily injury, property

damage and auto fleet—\$50,000; Honesty blanket bond — \$500,000; Comprehensive on buildings, equipment and other items ranging from \$21,000 to \$2,285,000, depending on item insured; an umbrella excess liability coverage of \$10,000,000 for each occurrence; and a \$5,000,000 excess liability policy over and above the base \$10,000,000 coverage.

## **Income, Expenses and Balance Sheet**

Tables 5 and 6 on pages 24 and 25 present five-year summaries of income and expenses for Improvement District No. 2-W since 1974/75 (the first year of significant financial transactions in the improvement district) and the entire District since 1972/73. The figures are extracted from the District's annual audit reports. The District has had independent outside audits of its financial affairs since its founding in 1964.

The District uses a modified accrual enterprise method of accounting, as required by the California State Controller. In general, income is recorded when earned and expenses are recorded upon incurrence of liability.

Table 7 on page 26 presents June 30, 1977 balance sheets for the improvement district and the entire District, including fund balances, as reported in the District's 1976/77 audit report.

## **Direct and Overlapping Bonded Debt**

The \$4,250,000 Series A Bonds currently offered will be the first general obligation bonds to be sold for Improvement District No. 2-W. There are no outstanding revenue bonds. Table 8 on page 27 presents the improvement district's direct and estimated overlapping bonded debt.

## **Other Debt Obligations**

In addition to outstanding general obligation bonds, the District leases its general office and field office. The total rent due on the two leases in both 1977/78 and 1978/79 is \$21,400.

There are also certain advances and notes payable by the District for water capacity rights and oversizing of certain mains. However, these are payable solely in Improvement District No. 2-W for which the bonds currently offered are being sold.

Table 5

## IMPROVEMENT DISTRICT NO. 2-W

## SANTA MARGARITA WATER DISTRICT

## Income and Expenses

	1974/75 <sup>①</sup>	1975/76 <sup>①</sup>	1976/77 <sup>①</sup>
OPERATING INCOME:			
Water sales .....	\$ —	\$ 539	\$ 39,404
Capacity sales .....	\$ —	—	20,000
Total operating income .....	\$ —	\$ 539	\$ 59,404
OPERATING EXPENSES:			
Water purchases .....	\$ —	\$ —	\$ 36,971
Capacity rights .....	—	—	20,000
Meter purchases .....	—	459	—
Salaries .....	—	2,946	6,359
Power .....	—	1	2
Maintenance and operation .....	—	855	2,096
General and administrative .....	10,433	14,523	20,250
Other operations .....	411	—	—
Depreciation .....	11,700	8,204	②
Total operating expenses .....	\$ 22,544	\$ 26,988	\$ 85,678
Net operating income (loss) .....	\$ (22,544)	\$ (26,449)	\$ (26,274)
NON-OPERATING INCOME:			
Property taxes .....	\$ 15,471	\$ 16,155	\$ 104④
Connection fees .....	—	8,252	15,400
Prior years and other <sup>③</sup> .....	—	—	1,085
Total non-operating income .....	\$ 15,471	\$ 24,407	\$ 16,589
NON-OPERATING EXPENSES:			
Prior years and other .....	\$ —	\$ —	\$ 807
Total non-operating expenses .....	\$ —	\$ —	\$ 807
NET INCOME (Loss) .....	\$ (7,073)	\$ (2,042)	\$ (10,492)④

① Extracted from District audits by Delmer L. Sylvester, CPA (1974/75); Diehl, Evans & Co. (1975/76); Thomas O. Martin Accountancy Corp. (1976/77); complete copies, including all notes to the financial statements, on file at District office.

② In prior years, the District considered donated capital plant as income and therefore included depreciation on donated plant as an operating expense. These practices were changed in 1976/77 and both items are now reflected only in the District's balance sheet.

③ Includes permits and inspection fees.

④ In 1974/75 and 1975/76, the improvement district accumulated surplus funds (excluding depreciation) sufficient to meet income needs for 1976/77, therefore, no property taxes were assessed for operations.

Table 6

## SANTA MARGARITA WATER DISTRICT

Income and Expenses<sup>①</sup>

	1972/73 <sup>②</sup>	1973/74 <sup>②</sup>	1974/75 <sup>②</sup>	1975/76 <sup>②</sup>	1976/77 <sup>②</sup>
<b>OPERATING INCOME:</b>					
Water sales and sanitation charges .....	\$ 43,940	\$ 161,504	\$ 377,981	\$ 685,136	\$1,028,966
Capacity sales .....	20,000	20,000	20,000	—	20,000
Meters .....	—	80,699	42,656	85,884	98,227
Other .....	10,787	60,096	42,161	—	31,030
Total operating income .....	\$ 74,727	\$ 322,299	\$ 482,798	\$ 771,020	\$1,178,223
<b>OPERATING EXPENSES:</b>					
Water purchases .....	\$ 35,068	\$ 86,537	\$ 138,254	\$ 220,452	\$ 477,204
Capacity purchases/rights .....	64,531	53,804	53,804	33,804	80,465
Meter purchases .....	—	65,555	27,131	67,352	104,741
Salaries .....	—	22,932	45,940	64,150	128,973
Power .....	5,809	20,793	57,730	98,118	142,787
Maintenance and operation .....	3,278	22,136	56,493	131,828	210,281
General and administrative .....	72,573	141,832	178,028	315,151	504,176
Other operations .....	699	13,656	11,796	—	—
Depreciation .....	86,033	174,006	193,101	232,318	251,722
Total operating expenses .....	\$ 267,991	\$ 601,251	\$ 762,277	\$1,163,173	\$1,900,349
Net operating income (loss) ..	\$ (193,264)	\$ (278,952)	\$ (279,479)	\$ (392,153)	\$ (722,126)
<b>NON-OPERATING INCOME:</b>					
Property taxes <sup>③</sup> .....	\$ 150,421	\$ 330,096	\$ 469,296	\$ 678,912	\$ 883,233
Interest income .....	127,055	260,896	304,586	60,134	278,423
Connection and other fees .....	27,018	110,000	48,640	294,997 <sup>④</sup>	93,925 <sup>④</sup>
Contributions for construction <sup>⑤</sup> .....	239,750	347,519	1,021,600	—	—
Grants .....	—	165,862	—	—	—
Prior years and other <sup>⑥</sup> .....	480	5,999	714	9,825	23,545
Total operating income .....	\$ 544,724	\$1,220,372	\$1,844,836	\$1,043,868	\$1,279,126
<b>NON-OPERATING EXPENSES:</b>					
Interest expense .....	\$ 307,729	\$ 295,596	\$ 342,259	\$ 530,873	\$ 598,998
Amortization of bond issuance costs ....	12,146	14,716	13,727	23,905	34,999
Prior years and other .....	5,617	5,462	(123,025)	3,505	12,943
Total non-operating expenses ....	\$ 325,492	\$ 315,774	\$ 232,961	\$ 558,283	\$ 646,940
NET INCOME <sup>⑦</sup> .....	\$ 25,968	\$ 625,646	\$1,332,396	\$ 93,432	\$ (89,940)

① Includes entire District (overall plus all improvement districts).

② Extracted from District audits by Hanson, Petersen, Cowles & Sylvester, CPAs (1972/73-1973/74); Delmer L. Sylvester, CPA (1974/75); Diehl, Evans & Co. (1975/76); Thomas O. Martin Accountancy Corp. (1976/77); complete copies, including all notes to financial statements, on file at District office.

③ Includes acreage assessments.

④ The 1975/76 audit prepared by Diehl, Evans & Co. accrued \$166,600 of connection fees billed in July 1976 (1976/77) to fiscal year 1975/76, rather than 1976/77.

⑤ Represents value of constructed facilities donated to District (1972/73-1974/75). Beginning in 1975/76, this was reported as deferred revenue rather than direct non-operating revenue and reported on District Balance Sheet as contributed utility plant.

⑥ Includes permits and connection fees.

⑦ Includes depreciation.

Table 7

## SANTA MARGARITA WATER DISTRICT

Balance Sheet as of June 30, 1977<sup>①</sup>

	Improvement District No. 2-W	Entire District <sup>②</sup>
ASSETS		
Plant, less depreciation .....	\$310,246	\$24,611,599
Restricted Assets:		
Cash .....	\$ —	195,800
Temporary investments .....	—	16,751,544
Subtotal, Restricted Assets .....	\$ —	\$16,947,344
Current Assets:		
Cash .....	\$ (7,090)	\$ (40,014)
Accounts receivable, trade .....	812	83,834
Taxes receivable .....	—	13,621
Other accounts receivable .....	16,205	39,900
Investments .....	—	248,456
Accrued interest receivable .....	—	134,484
Prepaid expenses/Deposits .....	98	5,447
Subtotal, Current Assets .....	\$ 10,025	\$ 485,728
Other Assets:		
Bond issuance costs .....	\$ —	\$ 725,829
Less amortization .....	—	(128,162)
Subtotal, Other Assets .....	\$ —	\$ 597,667
TOTAL ASSETS .....	<u>\$320,271</u>	<u>\$42,642,338</u>
LIABILITIES, RESERVES AND FUND BALANCES		
Long-term Debt:		
Less: portion due by June 30, 1978 .....	\$ —	\$33,900,000
Net long-term Debt .....	—	(335,000)
	\$ —	\$33,565,000
Current Liabilities:		
Accounts payable (trade/capacity) .....	\$ 9,180	\$ 697,613
Construction contracts payable .....	—	810,901
Long-term debt due by June 30, 1978 .....	—	335,000
Accrued interest payable .....	—	751,084
Meter and other deposits .....	700	8,700
Subtotal, Current Liabilities .....	\$ 9,880	\$ 2,603,298
Reserves and Fund Balances:		
District fund balance .....	\$ 297	\$ 1,709,873
Contributed utility plant .....	310,094	4,764,167
Subtotal, Reserves and Fund Balances .....	\$310,391	\$ 6,474,040
TOTAL LIABILITIES, RESERVES AND FUND BALANCES ..	<u>\$320,271</u>	<u>\$42,642,338</u>

<sup>①</sup> Source: District 1976/77 audit report; complete copy, including all notes to financial statements, on file at District office.

Table 8

## SANTA MARGARITA WATER DISTRICT

## IMPROVEMENT DISTRICT NO. 2-W

## Direct and Estimated Overlapping Bonded Debt

Estimated Population (April 1978) .....	200 <sup>①</sup>	
1977/78 Assessed Valuation:		
Land only .....	\$ 3,918,960	
All rolls .....	6,328,410	
Estimated Market Value:		
Land only per assessor .....	\$15,675,840	
Land only per appraisal .....	32,000,000	
All property per assessor .....	\$25,313,640 <sup>②</sup>	
Entity	Percent Applicable	Debt Applicable August 1, 1978 <sup>③</sup>
Orange County .....	.064%	\$ 2,438
Orange County Flood Control District .....	.064	12,614
Metropolitan Water District .....	.011	57,984
Capistrano Unified School District .....	1.060	362,149
Saddleback Valley Unified School District .....	1.277	327,487
San Joaquin School District .....	.636-.757	79,901
Tustin Unified High School District .....	.427-.496	33,120
Saddleback Community College District .....	.298	17,627
Santa Margarita Water District, I.D. No. 2-W .....	100.	4,250,000 <sup>④</sup>
TOTAL DIRECT AND OVERLAPPING BONDED DEBT .....		<u>\$5,143,320</u>

	Ratio to		Estimated Market Value <sup>⑤</sup>
	1977/78 Assessed Valuation		
	Land Only	All Property	
Direct Debt .....	108.45%	67.16%	13.28%
Total Debt .....	131.24	81.27	16.07

① Source: Coto de Caza Development Corporation.

② The State Board of Equalization reported 1977/78 Orange County assessed valuations averaged 25.1 percent of full value except for public utility property which was reportedly assessed at 25 percent of full value.

③ Excludes revenue bonds and District's share of county authority (\$2,912) and lease-purchase obligations (\$12,480). Excludes sales and repayments, if any, between July 1 and August 1, 1978.

④ To be sold August 1, 1978.

⑤ Land only, based on appraisal by Philip S. Jackson, M.A.I., March 31, 1978.

## Share of Authorized and Unsold Bonds:

Santa Margarita Water District, I.D.		Metropolitan Water District .....	\$40,150
No. 2-W .....	\$15,750,000	Saddleback Unified School District .....	2,937

# ECONOMY OF THE DISTRICT

## Geography

The Santa Margarita Water District covers an area of approximately 99 square miles in southern Orange County, about 20 miles southeast of Santa Ana, the county seat and 55 miles southeast of Los Angeles. The climate of the District is typical of the coastal plain of Southern California, being mild and relatively uniform. Median temperatures from a high of 71.7 degrees in July to a low of 54.2 degrees in December. Rainfall is generally confined to the period between November and March. The proximity of the District to the ocean and the prevailing wind patterns combine to produce relatively smog-free conditions. The District is served by Interstate 5, the major north-south freeway on the west coast, thus providing access from the District to the entire Southern California region and beyond.

## Population and Development

Orange County is the second most populous county in California, ranking second to Los Angeles County. The State Department of Finance estimated total county population to be 1,799,700 as of July 1977. This is an increase of 115,200 since January 1975

and 379,314 since the 1970 Federal Census. The county continues as one of the fastest growing urban areas in the nation and growth is principally occurring in the southern portion of the county, which includes the Santa Margarita Water District.

Coto de Caza began in 1968 as a planned low-density residential and recreational community. It comprises the Santa Margarita Water District's coterminous Improvement Districts Nos. 2-W and 2-S.

Mission Viejo began in 1966 as a totally planned community. The portion of Mission Viejo located within the Santa Margarita Water District comprises that District's coterminous Improvement Districts Nos. 1-W and 1-S. The tabulation at the bottom of the page summarizes population growth within Orange County and the Santa Margarita Water District.

Land development and building activity within the District is discussed in detail in the previous sections of this official statement entitled "District Organization and Facilities" and "Coto de Caza".

## Employment and Income

Residents of the District find employment throughout Orange County and also in the Los Angeles Metropolitan Area, although a recent survey by the Mission Viejo Company disclosed that the great majority of District residents are employed in Orange County. In 1963, Orange County was designated the Anaheim-Santa Ana-Garden Grove Standard Metropolitan Statistical Area. Employment statistics are compiled only for the entire Orange County Area. Employment data as of April 1978 and April 1977 for the Orange County Labor Market, as compiled

## SANTA MARGARITA WATER DISTRICT

### ORANGE COUNTY

#### Population Statistics

Year	Entire District	I.D.s Nos. 1-S & 1-W	I.D.s Nos. 2-S & 2-W	Orange County
1950 .....	①	①	①	216,224②
1960 .....	①	①	①	703,925②
1970 .....	nil ③	nil ③	nil ③	1,420,386②
1978 .....	18,000③	16,579③	300③	1,799,700④

① District formed in 1964.

② U.S. Census.

③ District estimates, April 30, 1978.

④ State Department of Finance, July 1977 estimate.

by the State Employment Development Department, is presented in the tabulation below.

As shown in that tabulation, manufacturing, trade and services are the three major categories of employment, comprising two-thirds of all jobs. Governmental employment is also a major factor in the Orange County labor market.

Orange County is ranked seventh in the nation in effective buying income (\$11.13 billion) in the 1977 *Survey of Buying Power* prepared by Sales Management Magazine. The median household effective buying income in the county was reported to be \$16,652 in the same survey.

## ORANGE COUNTY LABOR MARKET

### Employment by Industry

Industry	April 1977	April 1978
Agriculture .....	9,200	8,900
Mining .....	2,100	2,400
Construction .....	38,800	40,500
Manufacturing .....	170,400	183,300
Transportation and public utilities .....	20,000	21,700
Wholesale and retail trade ...	158,400	171,600
Finance, insurance and real estate .....	38,300	42,100
Services .....	131,300	141,400
Federal government .....	9,200	9,400
State and local government ..	94,200	98,000
Total .....	671,900	719,300
Unadjusted unemployment rate	5.8%	4.4%

Source: State Employment Development Department.

### Industry

Orange County had, as of June 1977, a total of 65 industrial parks, according to a survey conducted by First American Title Company. The county has over 33,000 acres zoned for industrial use, of which about half is presently undeveloped. The State Employment Development Department reported there were over 3,500 manufacturing firms in the county in 1977.

The Irvine Industrial Complex, comprising 6,400 acres, is located about 15 miles northeast of the Santa Margarita Water District. Over 400 industrial firms have located in the complex, including Beckman Instruments, Collins Radio Corporation, Parker-Hannifin Company, Bertea Corporation, Varian

Data Machines, Allergan Pharmaceuticals and Xerox Corporation.

The largest plant in the complex is the recently completed corporate headquarters of Fluor Corporation. About 6,000 employees will initially occupy the facility with an ultimate number of 8,500.

A 2,000-acre expansion of the Irvine Industrial Complex is currently under development. The entire complex is served by the Orange County Airport, railroads and freeways, providing ready access to virtually any point in the nation and abroad.

Located just to the west of the District is the Mission Viejo Industrial Park, comprising 90 acres, and the adjacent 54-acre computer plant of Burroughs, Incorporated.

Table 9 on page 30 lists major industrial employers within Orange County as reported by the Orange County Chamber of Commerce. Other large employers within the county include Federal, State and local governments, University of California at Irvine, California State University at Fullerton, various school districts, hospitals, utilities, shopping centers, Disneyland, Knott's Berry Farm and Air California.

### Transportation

Interstate freeways 5 and 405 intersect about five miles north of Coto de Caza. Interstate 5 is the major north-south route along the Pacific Coast. Interstate 405 is an alternate route that branches from Interstate 5 north of Los Angeles (becoming the San Diego Freeway), passes through the coastal cities of Santa Monica, Long Beach, and Huntington Beach, and rejoins Interstate 5 five miles north of Mission Viejo.

The Orange County Transit District operates 33 routes throughout the county, with stops in Mission Viejo. Greyhound provides interstate bus service from stops in the adjacent communities of El Toro and San Clemente.

The Los Angeles-San Diego mainline of the Santa Fe Railway is located immediately west of the District. Amtrak-operated rail passenger service to all points is available to District residents at nearby San Juan Capistrano.

Orange County Airport, located 15 miles northwest of the District, is served by Air California, Hughes Airwest and Golden West Airlines. Air freight service also provided by the airlines. Extensive general aviation facilities are also available at the airport.

Table 9

## ORANGE COUNTY MAJOR INDUSTRIAL EMPLOYERS

Firm	Principal Product	Employees
Hughes Aircraft Co.	Radar systems/aerospace	7,900
Fluor Corporation	Engineering contractors	6,000
Rockwell International	Electronic systems	6,000
McDonnell-Douglas Astronautics	Space systems	5,000
Beckman Instruments, Inc.	Instrumentation	3,950
VSI Recreational Products	R.V. water/waste systems	3,710
Northrop Corp.	Aerospace electronics	2,865
California Computer Products	EDP equipment	2,800
Ford Aerospace & Communications	Aerospace	2,750
General Electric Supply Co.	Electrical products	2,605
California Computer Products	Software	2,600
Burroughs Wellcome Co.	Pharmaceuticals	2,100
ITT Cannon Electric	Electrical connectors	2,000
U.S. Electrical Motors	Motors	2,000
Hunt-Wesson Foods	Food products	2,000
Rockford Aerospace Products	Fasteners	1,752
Interstate Electronics Co.	Missile instrumentation	1,700
McGaw Laboratories	Intravenous sets	1,700
Smith Tool Co.	Oil drilling tools	1,500
Kwikset	Hardware	1,400
Teledyne	Electric test equipment	1,300
General Automation, Inc.	Mini-computers	1,145
Liken Home Furnishings	Home products	1,100
Anaconda Telecommunications	Electronic communications	1,100
Parker Hannifin Co.	Missile components	1,100
Bertea Corporation	Hydraulic valves	1,000
Kirkhill Rubber Co.	Rubber products	1,000
Irvine Company	Land development	950
Executive Industries	Motor homes	800
AMF Voit Inc.	Sporting goods	800
Medical Plastics	Plastics	800
Altec Corp.	Electronics	800
SPS Inc.	Fasteners	800
Townsend Textron	Fasteners	800
Computer Automation Inc.	Computers	800
Burroughs Corp.	Computer systems	745
MSI Data Corp.	Field entry equipment	740
Aerojet General	Nuclear reactors	706
Allergan Pharmaceuticals	Ophthalmic drugs	700
Freedom Newspapers Inc.	Publishers	700
Kimberly-Clark Corp.	Paper products	700
Microdata Corp.	Mini-computers	700
Varian Data Machines	Mini-computers	700
Federal Mogul Corp.	Aerospace components	625
Bentley Laboratories	Medical products	600

Source: *Orange County Business and Industrial Directory, 1978 Edition.*

## Commerce

Commercial development in the District area is planned around individual neighborhoods, principally in Mission Viejo. Several neighborhood shopping centers have been recently constructed. Two Safeway Markets, two Alpha Beta food markets and a Ralph's are now open in neighborhood shopping centers located close to Coto de Caza. Businesses represented include Bank of America, Security Pacific National Bank, United California Bank, Crown Drug Co., Allstate Insurance Co., Keystone Savings & Loan, Union Federal Savings & Loan, several specialty stores and a theater. There is also a Holiday Inn and a number of restaurants, principally around the intersection of La Paz Road and Interstate 5. Overall, within Mission Viejo there are over 350 businesses occupying over 1.5 million square feet. Presently in operation are Toyota, Volvo, Mercedes-Benz and Fiat, BMW, automobile and Honda motorcycle dealerships.

Orange County has 15 major shopping centers plus one under construction. These are regional centers, mostly covered malls, that have a wide range of stores including both those of major department chains and individual specialty shops. The major shopping centers closest to the District are listed in the next paragraph.

Fashion Island, in Newport Beach, is a regional shopping center for central and southern Orange County. About 15 miles from Mission Viejo, Fashion Island contains four major department stores, and 56 specialty shops and restaurants. South Coast Plaza in Costa Mesa, Laguna Hills Mall in Laguna Hills, and Bullock's Fashion Square in Santa Ana are other nearby shopping centers.

Construction began on the Mission Viejo Regional Shopping Center in January 1977. This center, located along Interstate 5 adjacent to the District, will provide three major department stores, a wide range of shops, restaurants and other commercial outlets in 750,000 square feet of floor space. Completion is scheduled for early 1979.

In addition, the Irvine Company is developing a \$300 million commercial and office complex to be located about five miles northwest of the District. The first phase, to be opened in 1979, will comprise 470 acres and include five department stores, more than 100 specialty shops, a hotel and other facilities.

The tabulation in the next column presents a summary of taxable sales transactions in Orange County since 1972, as reported by the State Board of Equalization.

## ORANGE COUNTY

### Taxable Transactions

Year	Outlets July 1	Taxable Transactions
1972 .....	31,349	\$3,931,107,000
1973 .....	33,308	4,701,633,000
1974 .....	36,485	5,210,519,000
1975 .....	40,448	5,751,433,000
1976 .....	44,816	6,965,894,000
1977 .....	49,826	8,658,128,000

Source: State Board of Equalization.

## Utilities

Utility services, all underground, are provided to District residents by the following:

Electricity: Southern California Edison Company; San Diego Gas and Electric Company

Natural gas: Southern California Gas Company

Telephone: Pacific Telephone Company

Water and Sewer: Santa Margarita Water District, as discussed previously

## Education

The District area, including Coto de Caza is served by four pre-schools, eleven elementary schools, an intermediate school, Capistrano Valley High School and Mission Viejo High School.

Saddleback Community College in Mission Viejo offers two-year programs leading to a two-year degree or transfer to a four-year institution. The college district covers a 376-square mile area including most of southern Orange County. Total 1977/78 enrollment is 15,400.

University of California, Irvine, about 15 miles from the District, is one of the university's nine campuses. Five schools are central to the academic structure at Irvine: biological sciences, fine arts, humanities, physical sciences, and social sciences. Professional degrees are offered in engineering, business administration and medicine. Fall 1977 enrollment was over 12,000, including graduate and medical students.

Other institutions of higher learning in Orange County are California State University at Fullerton; Chapman College in Orange; Pacific Christian College, Fullerton; Southern California College, Costa Mesa; West Coast University, Orange; and Western

State University College of Law in Fullerton, plus the following 2-year community colleges; Cypress Community College; Fullerton Community College; Golden West College; Orange Coast College; and Santa Ana College.

## **Community Facilities**

The community area is served by Mission Community Hospital, a 212-bed facility offering patient care, 24-hour emergency room, a separate 35-bed intensive care unit, and a recuperative care unit. La Paz Medical/Dental Center and a new medical/dental center provide support services to the hospital.

Municipal services such as police and fire protection and library are provided by Orange County as the District is totally unincorporated. Three county fire stations are located in Mission Viejo. A county library is also located within the community.

A newspaper, the *Mission Viejo Reporter*, is published monthly by the Mission Viejo Company. Los Angeles and Orange County dailies are also delivered to the District. Mission Viejo Cablevision, a subsidiary of Times-Mirror Corporation, brings television cable service to the area, enabling residents to receive Los Angeles and San Diego stations.

## **Recreation and Tourism**

As discussed previously, Coto de Caza is a low density residential and recreational community. Recently completed or planned recreational facilities include The Vic Braden Tennis College, an 18-hole golf course with full clubhouse facilities, rental units for guests, an equestrian center, a hunt lodge and skeet/trap range plus open space and park areas.

To the west, the Mission Viejo development within the District has a number of neighborhood parks and a 26-acre wilderness area. Other golf courses

are available at the private Mission Viejo Golf Club or at the public course at Casa del Sol.

Spectator events such as the Virginia Slims Pro Tennis Tour, the Los Angeles International Swim Meet, the CBS "Challenge of the Sexes" and the Southern California Professional Golfers Association Championship have been hosted at Mission Viejo recreation facilities. The Mission Viejo Swim Club is the home of a number of medal winners of the 1976 United States Olympic Swim Team.

In addition to facilities within or nearby Coto de Caza, Orange County offers a broad spectrum of recreational opportunities which are enhanced by its mild climate.

Along the county's Pacific Coast shoreline are five state beaches and parks, five municipal beaches and five county beaches. There are small craft facilities in Newport Harbor, reported to be the largest pleasure craft harbor in the world. A second small craft facility is located at Sunset Harbor in Huntington Beach. A third opened at Dana Point in 1971.

Nearby recreational facilities include the world-famous Disneyland, Knott's Berry Farm, Movieland Wax Museum, and Mission San Juan Capistrano. Lion Country Safari opened in June 1970 at a 500-acre site five miles north of Coto de Caza. It contains a variety of wild animals and birds which visitors may observe on a drive through the facility.

Anaheim Stadium, home of the California Angels baseball team, is 15 miles north of Coto de Caza.

Camping facilities are available in the Cleveland National Forest and at the county's O'Neill, Ronald W. Caspers and Featherly Parks. Orange County has adopted a Master Plan of Regional Parks which calls for development of 28 parks in three priority groups. Nearby State parks are Doheny, San Clemente and San Onofre.

## PHILIP S. JACKSON, M.A.I.

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AMERICAN INSTITUTE OF  
REAL ESTATE APPRAISERS

March 31, 1978

Santa Margarita Water District  
25571 Marguerite Parkway  
Mission Viejo, Ca. 92675Re: Appraisal of Land  
Within Improvement  
District 2-W, Orange  
County, California

Gentlemen:

In accordance with the request of Mr. W. W. Knitz, General Manager, by letter dated February 22, 1978, I have examined the subject property for the purpose of estimating its market value as of March 1, 1978.

After inspection and analysis, it is my conclusion that the summation of the market values of the various segments of the property was \$32,000,000.

THIRTY-TWO MILLION DOLLARS

This value may be allocated as follows:

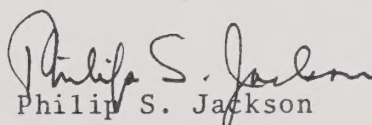
Developed Land	\$17,000,000
Undeveloped Land	\$15,000,000

The total value represents the summation of the estimated value of all the individual parcels within the District as generally parcelized by the Orange County Assessor. The reported value is for land only, and no structures were included.

Within the following short-form appraisal report are a property description, maps, photographs, and a summary of the valuation analysis.

Additional appraisal information and market data details are retained in my files and are available to you upon request.

Respectfully submitted,

  
Philip S. Jackson

PSJ:gc

Enclosures

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